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Compensation at Starship Recreational Vehicles

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Table of Contents

Section 1: Research

The Evolution of Compensation: Wage Theory and History

There have been several theories of wages that were proposed to explain or delineate the dynamics of wages. St. Thomas Aquinas (1225-1274), a philosopher and Roman Catholic theologian, developed one of the early wage theories, one which incorporated moral considerations. The "just wage" theory that Aquinas proposed was in reality a definition of what wages should be rather than what they actually were. He said that a just wage was one which allowed the worker to live in the manner appropriate to the social status to which the worker was accustomed. David Ricardo (1772-1823) developed the subsistence theory, building on the work of other economists. This theory argued that wages are established by paying workers bare subsistence. If workers earnings dropped below subsistence level, the labor force would not reproduce itself and if wages rose above subsistence level, more working class children than needed for the workforce would "survive" and wages would be forced down due to the competition for open jobs. This theory was proved to be incorrect when later economic conditions allowed the wage level to rise well above the subsistence level. Karl Marx also argued that capitalism prevented wages of laborers to rise above bare subsistence level due to the "appropriation" of profits by capitalists. Again, this was disproved by later history and economics. The wage-fund theory proposed by some later British economists followed the belief that wages were paid by past capital gains divided out among workers. Any wage increases for individual workers would require wage reductions for other workers unless the base capital fund for wages was increased. It was proven that this was incorrect and that wages were actually paid form present capital acquisition, not past. The next theory was that of marginal productivity which says that wages would be set at the level where employers find it profitable to hire the maximum staff while still producing profitably. Later, most economists felt that higher wages did not cause reduced employment due to "diminishing returns" as the proponents of the marginal productivity argued. Economists, such as John Maynard Keynes (1883-1946), felt that increase in wages was only dangerous if wages were allowed to outrun production.

Before the Industrial Revolution, few historical records were maintained but it is thought that most workers earned just sufficient wages to live on and little more. Cost of living and wages both began to rise around the 15th century with wages typically increasing less than the cost of living leaving workers to still only barely subsist on what they earned. Around 1850 wages began to rise more steadily due to the use of new production technologies that marked an increase in productivity. In the U.S. wages doubles in value between 1820 and 1890 and increased around 150 percent between 1914 and 1954 (Microsoft Corporation, 2004). In 1954 an amendment to the Fair Labor Standards Act of 1938 (FLSA) raised the minimum wage in the U.S. to $1.00 per hour. The Federal minimum wage rose to $5.15 in 1997.

Many companies began to increase other "fringe benefits" as part of their compensation packages such as holiday pay, paid vacations, and sick leave. In 1956 the auto industry made an agreement with labor organizations to pay wages to workers during periods of unemployment. Many labor management agreements began include provisions for such benefits, as well as employers funding pension programs and insurance. Supplemental benefits to wages rose from 0.8 percent to 12 percent of national income from 1929 through 1985 (Microsoft Corporation, 2004).

Clearly, compensation has evolved from pay that barely offers a living wage to salaries that give most workers the ability to maintain a higher standard of living. In today's economy, worker ability to purchase luxury items, those items not needed to fulfill the basic needs for survival, has become an important part of retail sales.

Labor Union Effect on Compensation

Labor union presence can add as much as 20-30 percent to employee benefits (Long & Shields, 2009). Unions prefer that workers are paid in a pay per unit of time method as opposed to an individual pay for performance method of compensation for several reasons; performance pay is easier for management to manipulate and unions feel that methods used to distribute are often too subjective; pay differentiation defeats union solidarity by leading employees to feelings of inequity; it is much easier for labor unions to monitor base pay. One method of performance pay that unions are not completely opposed to is a group rewards type of pay system in which a work unit is rewarded for higher performance of the whole work unit as long as they are not tied to organizational factors over which workers have no control, such as rewards systems tied to a rise or fall in stock prices. Work unit performance pay can be tied to a piece rate system that rewards the work unit for a certain number of pieces produced or production rate achieved.

Labor unions act as employee advocates when organizations are considering total compensation, conditions of employment, and other factors that affect the worker management relationship. For that reason, unions can have an effect on the level of compensation that employees receive (Long & Shields, 2009). Whether this has an effect on non-union wages is a matter of debate. Some organizations do raise wages in an attempt to prevent unionization of their workforce (Sherk, 2009) and there is a possibility that good Human Resource Management (HRM) practices that raise overall job satisfaction among workers can be a substitute for unionization (Petrescu & Simmons, 2008). Competition from union workplaces can sometimes cause non-union employers to offer higher wages to compete for available labor supply. Although Starship is not unionized, labor unions can affect wage levels in non-union workplaces by raising average wages in a particular job group. Also unionization affects organizational management's latitude in dealing with employees. Any changes in conditions of employment require union involvement through collective bargaining. If job satisfaction is low at Starship, a labor union could find Starship employees favorable to voting for organization of a bargaining unit. Reorganization of Starship's compensation system would give workers a better sense of equity in salary levels which in turn could have positive effects on productivity and quality.

Executive Compensation

High executive compensation has become a concern for stockholders and investors, especially when stock performance is poor. It may also have an effect on employee performance if the differential between executive compensation and worker compensation is too great. Corporate executives, especially the CEOs of large corporations, are often overcompensated in relation to their contributions and performance. This trend began as an incentive to attract strong performers to head the companies but the packages have become so large that it is often more lucrative for a CEO to fail and leave the organization in order to collect the severance package that includes stocks and cash worth hundreds of millions. In the past few years there has been some reversal in the trend. Executive compensation packages are now beginning to be based on investment returns and market performance but all too often the CEOs of large companies are still overpaid in relation to their performance.

A: What Does a CEO Do?

The primary duties of a CEO, those that the Chief Executive Officer actually must perform him or herself, are important. Although many tasks must be delegated to subordinates, the CEO is responsible for building a team of subordinates that are capable of managing the corporation successfully and assuring that the mission or vision of the organization remains in sharp focus. The CEO must maintain a motivated, cohesive and cooperative management team that is able to surmount obstacles and lead the organization to success. The CEO must make difficult decisions and remove members of the team who are unable to perform satisfactorily. The CEO must develop a plan of strategy that will assure the success of the organization that he/she leads. Another of the important responsibilities of the CEO is management of corporate capital. The CEO must scrutinize expenditures and allocation of funds to maximize returns to the investors. The CEO must also create and maintain the company's culture. The culture of the organization sets the behavior pattern of the company's employees and for it to be adopted and successful, the CEO must also embrace the culture to show support for it. The Chief Executive Officer has a difficult task in running a company and should be fairly compensated when leading it successfully.

B: Overpaid CEOs

Are CEOs worth what they are given in compensation packages? Average CEO compensation at some of the larger companies in the U.S. in 2001 was around $13 million (Ivancevich p. 347). The Enron scandal, in 2001, focused a lot of attention on corporate business practices, which helped to bring to the attention of stockholders and investors the large executive compensation plans. In 2002, the *Wall Street Journal* listed the CEO compensation figures of several large corporations that were having financial difficulties. Enron's CEO, Kenneth Lay received a $67.4 million package which included salary, bonus, and restricted stock. According to an article by Jeanne Sahadi the overall total compensation of the 10 highest paid CEOs in the last 15 years was more than $11 billion. Growth of CEO compensation compared to the average non-management worker has risen astronomically. In 1982 CEO to average worker salary was a 42 to 1 ration. In 2001 that figure rose to 525 to 1. These figures do not represent compensation figures of CEOs that are always successfully leading their companies to growth and high dividends for stockholders because between 1991 and 2004 the stock of the companies with the highest paid CEOs underperformed (Sahadi 2005) in the market 50 percent of the time.

C: Who Decides Compensation?

The responsibility of approving compensation packages usually lies with the boards of directors. The compensation figures considered for executives are often generated by peer review which aligns compensation to figures paid by other companies. This does not correlate pay to any performance level by the executive. In the case of the Disney stockholders lawsuit (Gunther 2003) against CEO Michael Eisner and the other directors on the board, the large compensation package received by Michael Ovitz. Ovitz was removed from the position of president of Disney after 15 months of poor performance. Part of his compensation included a severance package of approximately $38 million dollars and stock options worth around $100 million. The total severance package equaled almost 10% of Disney's 1996 net income. The basis of the lawsuit was that the stockholders felt that the directors didn't make "good faith" decisions when they approved the compensation contract when Ovitz was hired. The Disney stockholders believed that the company should recoup the money. Although the final judgment went against the stockholders, this was another case that brought a great deal of attention to the issue of high executive compensation. In the future, boards of directors should find it necessary to better represent and address the concerns of stockholders, as well as avoid rewarding less than stellar performance by executives with compensation packages. Compensation packages can be reasonable if based on comparable performance. To assist in controlling excessive executive pay contracts, committees for reviewing compensation packages could be made up of stockholders and directors and pay could be linked to shareholder returns. Rather than guaranteeing pay, variable pay could be tied to the company's market performance which would give executives more incentive to work hard for the benefit of the company. Chief Executive Officers should be held directly responsible for capital costs to encourage them to look towards company growth and not just personal gain of cash and assets. Boards of directors should encourage or require high level executives to invest in the company to assure their continued interest in the success of the organization.

At a family owned organization such as Starship, executive compensation is decided by the owner(s) who usually occupy the President/CEO position and often other executive positions. While private ownership sometimes allows avoidance of board of director involvement, careful consideration should still be given to CEO and other executive compensation levels.

D: Comparison

The U.S. Army rank of Major General was chosen as a comparison to the responsibilities of a CEO. A Major General in the U.S. Army usually commands division-sized combat units. A division is a unit that consists of around ten to fifteen thousand soldiers and is usually considered to be the largest unit capable of independent operations. In order to be self-sustaining, the division is made up of combat troops and combat support troops that give the unit its' ability to move and fight independently. A Major General with 14 or more years of service had a salary of approximately $107,500 per year in 2003. A Private with less than two years of service had a base pay of approximately $12,700 per year. That is a ratio of approximately 8.5 to 1, which shows a good deal of disparity when compared to the CEO to non-management worker ratio of 301 to 1 for the same year.

Chosen as a comparison from the federal service, the position of District Manager (DM) in the Food Safety and Inspection Service of the U.S. Department of Agriculture is responsible for the delivery of major aspects of the Agency's food safety and public health regulatory mission. The DM has extensive resource management authority and responsibility in planning, developing, organizing, directing, controlling and coordinating the Agency's public health regulatory strategy for his/her assigned district. A District can range from one very large state to two to seven smaller states. District activities involve a budget ranging from $12 million to over $40 million and a staff of up to 1000 inspection and administrative personnel. The pay grade of a DM is GS-15 and DMs received a base pay of approximately $107,000 with 14 or more years of service in 2003. A GS-5 Food Inspector, the entry-level pay grade for FSIS non-management personnel, had a base salary of approximately $23,442 in 2003. The ration of DM to Food Inspector salary for 2003 was approximately 4.5 to 1.

For some time, executive pay has been based on peer-group surveys to determine compensation levels but this practice sets pay based on what other companies pay their executives. Executive pay should be tied to company market results to reward executives for performance and the practice of setting pay for performance is gaining momentum but executive pay is still too high in relation to non-management personnel pay levels.

Pay Compression

Pay compression is a situation that sometimes occurs when newly hired employees who have less experience receive higher wages than employees that have been with the organization for some time (Ladika, 2005). Pay compression is a very serious issue and can lead to employee dissatisfaction and loss of productivity. When employees that have been with an organization for several years begin to see newly hired employees receive salaries equal or higher than their own, they feel that they aren't being properly compensated for their experience and loyalty. Turnover can increase with the company losing valuable, knowledgeable employees. A structured pay system can help an employer avoid pay compression by delineating pay level from entry through all levels of seniority. Although pay for performance is an issue that has received much attention recently, organizations could avoid base salary increases and use lump sum bonuses to reward above average performance (Kovac, 2005). This would help to avoid large differentials in specific job pay plans. In addition, labor market data should be reviewed on a regular basis to assure that employee wages are competitive with what other organizations are paying. This would help pay alignment and high turnover due to workers leaving for more pay. It is necessary for an organization to stay up-to-date with current labor market trends and update pay plans accordingly to avoid both employee dissatisfaction and possible legal difficulties related to wages.

An important concern that can be related to pay compression is the possibility of discrimination. The Equal Pay Act and the Civil Rights Act require that employers pay workers "equal pay for equal work" (Milkovich & Newman, 2008). According to the Supreme Court in the case of *Schultz v. Wheaton* Glass (1970), work must be substantially equal to apply the act. Pay compression could be considered discriminatory if it adversely affects a protected class that has substantially equal duties, tasks, and/or responsibilities. Pay plans should be designed in such a manner that pay criteria are not related to gender, race, religion, or national origin.

Pay compression can also affect overtime exempt supervisory and management personnel. When a supervisor/manager has subordinates who are eligible for overtime pay, those employees can sometimes earn overall higher wages. This can be a factor when the organization promotes from inside the workforce. Candidates often avoid promotions if they will actually lose money by becoming overtime exempt supervisors (Anonymous, How to Avoid 'Fallout' From Pay Compression, 2004).

To assure that workers feel that they are being treated equitably, organizational management must be aware of the needs and wants of employees. Communication is a key element in this as a good manager must communicate organizational values and requirements to employees. It is management's responsibility to assure fairness in its treatment of workers and to thoroughly communicate organizational requirements and goals to each employee (Hartman & Villere, 1990). The organizational pay structure should be thoroughly explained so that each employee is cognizant of the requirements of progression from entry level through each stage of pay increase that they will experience in their tenure with the organization. Each employee must be made aware of the affect that performance may have on their wage levels, as well. A well informed worker will feel more prepared for any challenges presented by their association with the organization and will be more satisfied with management decisions if those decisions are made in a transparent and logical manner.

Pay for Performance

Pay for performance, that is rewarding employees for good performance, has become an important method of recruitment, motivation, and retention in many organizations. The difference in pay increases between employees who perform well and those who underperform is increasing according to a survey by Towers Perrin. In 2007, higher rated workers received an average pay raise of 5.6% while those who rated low only received an average of 1.8% increase in pay (Athavaley, 2007). For the most part, when an organization links pay to performance, the result will be an improvement in both individual performance and organizational performance. Pay for performance can be implemented in several ways but before implementing a pay for performance plan, organizational management must be sure that; the plan supports organizational objectives; the organization is structured in such a way that will allow different program areas to use a general pay for performance plan if that is what will be implemented; the pay plan must be equitable to employees; and the pay plan must meet legal requirements.

Individual pay for performance plans can be structured in several different ways. *Merit pay* can be incorporated into a pay plan where progressively higher levels of performance would increase the merit increase added to base pay. For example, someone who was performing average or above would receive a larger amount than an employee that was not performing as high. In some plans, the poor performer would receive no yearly (or other period) increase. Another form of pay for performance used is the awarding of *lump sum bonuses* for employee or organization performance rewards. This can be done without adding to base pay and is a good cost conservative method of rewarding good performance without increasing base pay to prohibitive levels. *Individual spot awards*, similar to lump bonuses, are given for special circumstances. These awards are not typically given on a specific schedule but are often given for superior performance during a special project or when an employee creates, designs, or implements a unique system or method of performing or meeting organizational tasks and goals. Some individual incentive plans use a *reverse incentive plan* to encourage better performance. For example, if a worker on a production line makes a mistake when assembling an item, that might cause subtraction of points or monetary amounts that would affect overall compensation. Inversely, *piecework systems* count the number of *pieces* of a product produced in a specific time period and compensate the employee accordingly.

Pay for performance plans can also be geared to the efforts of more than just the individual. These group or team plans measure the overall success of the unit included and can be of any size from a small team to the entire organization. There is one problem that seems to be inherent in group incentive plans, and that is the “free-rider problem” where individuals do not contribute to meeting the overall mission or goals of the group but simply “go along for the ride” and reap the rewards without making any significant contribution. This problem can be minimized by management personnel who can implement strong performance management controls but some organizations moved away from team and group reward systems because of free riders.

In designing or implementing a pay for performance system, many responding to an online forum (Heskett, 2007) seemed to think that long term and short term performance should be rewarded. They also felt that rewards should be based on both financial and non-financial objectives. For example, workers at Starship should be rewarded for their positive behavior as well as positive results seen by the company. In periods that the economy is behaving poorly or a company is in the midst of restructuring or updating equipment, workers could be performing very well but not see any rewards if the incentive system of the organization was tied solely to overall company performance. A good system should take into account worker performance and organizational performance. Rewards could be two-fold and geared towards both outcomes. Individual worker performance could be tied to a quantitative value that correlated with specific job attributes, such as piecework systems use for performance pay.

The history of pay for performance bears out the conclusion that generally "employees will work harder if there is more money to be earned" (Jane, San, & Ou, 2009). Success is not automatically attained when an organization decides to implement a pay for performance plan. There are several factors that contribute to a more successful transition to aperformance pay system. Employee involvment is important from both the worker's perspective and that of the organization. Employee input can be solicited for comment and possible solutions to problems as they arise. By being made a part of the transition process, especially if their concerns are addressed, workers will feel that they are involved in the development of the program. The use of pay panels are important in managing salary increases. Pay panels can help avoid discriminatory or biased increases and assist in preventing "rating inflation". The use of subject matter experts in determining performance criteria will assist in adding credibility due to their knowledge of the work. Use of a systematic approach to determine increases is very important in order to avoid the inconsistencies of subjective supervisory opinion. Good communications are a key element of a succesful system and should incorporate many meetings and forums so that employees can ask questions and provide feedback to management throughout the process of implementation. Continuing communication is also important for maintenance of the performance pay system as receiving and acting on feedback from employees will show workers that an organization is interested in continuously improving a system. In general, pay for performance plans have a positive effect on worker performance if well planned and designed (Milkovich & Newman, 2008).

A problem with pay for performance and incentives, especially high level incentive programs that promote experimentation and innovation, is the "pay off". When employees reach the levels of performance necessary to earn the rewards of an incentive plan or reach a level of performance sufficient to receive performance increases, an organization is obligated to give the employee what is deserved. The problem lies in having sufficient value added by the performance of the employee to satisfy both the worker and shareholders that are primarily concerned with increasing their earnings (Day, Mang, Richter, & Roberts, 2002). The best way to solve this problem is to foster a culture of commitment in which the incentives are not so high level that the company will see few benefits. In a high commitment culture, the employee shares concern of long term goals with the organization.

The use of set base payrates and incentive bonuses seem a good fit for Starship. Lump sum payments for high performers would prevent inflation of base pay rates and the sense of "entitlement" that often comes with systems that add to the base pay. Lump sum incentive bonuses would send a message to employees that the incentive must be earned each year while leaving base pay at a competitive 75th labor market percentile which could be maintained through yearly cost of living increases when necessary.

Case Study: Compensation Using a Structured Pay Plan

A: Introduction

The *Food Safety and Inspection Service* (FSIS) is the public health agency in the United States Department of Agriculture that is responsible for assuring that the American public is supplied with safe and wholesome meat, poultry, and egg products that are correctly labeled. More than 7, 600 inspection program personnel are employed by the Food Safety and Inspection Service to provide regulatory oversight in almost 6,000 federally inspected slaughter and processing facilities. The assignments of inspectors in these facilities vary from one-inspector assignments to multiple production line, multiple shift assignments that might require a staff of 20 or more inspectors and two Doctors of Veterinary Medicine.

The entry level position for most inspectors is usually the Food Inspector job series. The next position in the career ladder for Food Inspectors is the Consumer Safety Inspector series. These series are considered technician level employees. The Public Health Veterinarian series and the Enforcement Analysis Investigations Officer series are considered professional level employees of the agency. These positions are filled at entry levels based on educational requirements and have a higher potential for promotion with regards to pay level than do the technician series positions.

The employment positions at the Food Safety and Inspection Service are civil service positions and as such are not greatly affected by market conditions, unless market conditions see a huge decrease in the production of meat products so that the number of inspection positions decrease. Wages do not fluctuate within the agency to reflect good or poor years in the meat and poultry industry. Civil service salaries are set by Congress and are reviewed yearly. Cost of living increases are also made after careful consideration by Congress each year.

B: Compensation at FSIS

Compensation for employees of the Food Safety and Inspection Service has several forms beyond base salary. Inspectors, veterinarians, and all other employees of FSIS are paid a base salary using the federal General Schedule pay system. This system is set up in grades and step increases to both align pay with specified duties and to give longevity increases in the form of “steps” as an employee builds seniority in a particular job series. For example entry level Food Inspector is paid at the GS-5 step 1 rate. After the first year of service is completed in the form of a probationary period, a Food Inspector is promoted to the full performance grade of GS-7 step 1. After an additional year of service, the Food Inspector moves up to a GS-7 step 2. This is not a promotion but a longevity increase.

FSIS also utilizes recruitment and retention incentives to attract and retain personnel. Recruitment incentives are used to attract personnel into hard to fill positions and consist of 25% of basic salary paid in a one-time, lump sum. The agency plans to make it possible to increase this to 50% based on a critical need. The restrictions for the recruitment and retention incentive include the requirement to sign a

1 year service agreement and the employee must receive an acceptable performance rating for the year-long period of employment.

FSIS also maintains an incentive program for employees that give supervisors and managers a vehicle for recognizing superior performance or extra effort by a subordinate. These incentives range from cash awards of 5% of base pay through a possible $25,000 (Presidential approval required) or non-monetary awards for recognition of extra efforts.

C: PHHRS and FSIS

Recently FSIS implemented a new pay for performance system for non-bargaining unit employees. The Public Health Human Resources System (PHHRS) is a Demonstration Project that has been implemented by FSIS to test the effectiveness of a pay for performance system. PHHRS is a departure from the General Schedule salary system in that non-bargaining unit employees will only receive annual salary increases if their performance is at a level that meets or exceeds requirements. Employees that are underperforming will not receive an annual salary increase. In addition, under the PHHRS system, employees will not receive “step” (seniority) increases as is the case with the General Schedule system. It remains to be seen how effective this system will be and its future may be in doubt in light of recent events. The Obama Administration seems to show less favor for pay for performance systems in the Federal workforce.

In April of 2006, the Department of Defense implemented the first phase of the National Security Personnel System (NSPS). The system experienced many growing pains throughout each phase of its implementation. In November of this year, President Obama signed into law P.L. 111-84 which enacted several changes in personnel policies including the repeal of NSPS. This attempt at a pay for performance system by the Federal government met great opposition by union groups received little support from employees. If the failure of NSPS is indicative of what Federal employees can expect in the future, the U.S. Department of Agriculture’s PHHRS may also see few successes.

D: Advantages of a Structured Pay System

A significant advantage of a structured pay system such as the General Schedule (GS) system used by FSIS is pay equalization. Even though the GS system is considered to be obsolete and in need of replacement, in an organizational setting where there is a very structured pay system, workers usually feel that wages are more fairly distributed. Employees in such a system usually know where they stand in comparison with their peers and have fewer concerns with being treated unfairly with regards to compensation.

The Effects of a Poor Compensation System

Organizations that are experiencing problems with compensation may suffer from a poor compensation system. These substandard systems often have few or no written standards or policies, are inconsistent in the way compensation is meted out, and do not plan for future events or needs. When a company's compensation framework is lacking several things happen; employees have little trust or confidence in their organization's management; lack of equity causes conflict amongst workers; turnover increases which leads to poorer overall organizational performance. Continuation of the usage of a pay system that is inadequate could ultimately lead to the dissolution of a company.

A good pay system fully delineates the compensation process in written form, covering all policies and processes. The formalized system is implemented consistently and equitably throughout the organization burgeoning support for and confidence in management. Work product of employees is more responsive in an organization where they feel that they are being compensated fairly (Hayse, 2003-2005).

Critical Examination of a Management Bonus System

Gold Kist, formerly a large chicken producing cooperative in the South, started out in 1933 as the Cotton Producers Association in Carrollton, GA. Before being acquired by Pilgrim's Pride in late 2008, Gold Kist was the second largest poultry producer in the U.S., second only to Tyson Foods. Gold Kist had an incentive program through which managers were rewarded with bonuses if they reached certain goals (Ralston, 2009). The incentive was a variation of a shares type system. If Gold Kist had a profitable year, a certain amount of the profits were allocated for the incentive system. In order to be eligible for the bonus, each manager was given goals in four areas; safety, product yield, quality, and an industry comparison. The primary goal for safety was to have no "lost time" accidents within a set time frame. The product yield goal was set at what was considered an optimal yield of product from raw material after processing. The quality goal required that product have limited aesthetic or food safety concerns. The industry comparison was a cost comparison between the manager's costs associated with production of a certain volume of product as compared to another producer's costs for the same product type. If the manager's results showed cost savings over industry standard costs, she/he would meet the goal for the incentive. When managers completed the time frames specified for meeting goals, their results were calculated as a percentage of the goal. The funds allocated for incentive bonus payouts were pooled and a manager's percentage of goals reached was converted to shares of the incentive pool. A highly successful manager could have more than 100% success if her/his goals were met and surpassed which in turn gave the manager a significant number of shares in the incentive pool.

This type of incentive program is easily adapted to use as a general incentive for non-management employees. It seems a logical progression that if an organization implemented an incentive plan of this nature, that each employee would earn shares based on the duties and responsibilities of the position as well as success in reaching goals. For example, a worker on an assembly line would have a goal set to produce at a certain rate. The Shift Foreman of that person would also be responsible for the production rates of several other Assemblers as well as the quality of the finished product. In turn, the Assembly Manager would be responsible for production rate, product quality, and employee safety and welfare. The scope of responsibility would increase as the level of management rose. With an increase in responsibility and a greater number of focuses of concern, an employee should have a greater number of "shares" or pieces of funding allocated for incentive bonuses.

Assembly Line Manufacturing and Incentive Plans

Assembly line manufacturing is a process by which a finished product is assembled part by part in a more or less linear sequence. As the product is moved down the assembly line, parts and/or components are added by individuals, crews, or teams. For example, in the auto industry, as a car moves down the assembly components are added as the conveyor carries it forward. At one particular station the engine is added, at another the windshield is installed, and so forth. Within this work environment, it is possible to break the employees down into teams that might range in size from two or three workers to all workers on a shift. Incentive plans could be tailored fit particular production goals appropriate to each team.

Conclusion

Clearly compensation systems whether formal or informal have undergone many changes since the first theories of wages were proposed. Compensation has evolved from bare subsistence wages to complex packages that include wages, health care provisions, retirement plans, and profit sharing plans. This has been partially in response to labor market pressures and the need to attract high quality employee. Workers want to earn a wage sufficient to meet their basic needs with money left over for luxury spending and they want their salaries to grow as they work (Billikopf, 2003). As they age workers also become concerned about preparing for retirement and the standard of living that they can maintain after retirement.

Increasingly employers are using some form of incentive pay to reward employees for good performance. There are several methods used for payouts to the workers that earn these incentives. There are two methods that are of interest in designing an incentive program for Starship. The merit pay type of plan and the lump sum bonus type of plan. The merit pay plan can be used to reward workers by giving a payout in the form of a percentage increase to base pay after each appraisal cycle if the employee meets or exceeds performance expectations. In some cases, employers do give a pay increase if employee performance is marginal but not if performance substandard. The use of the merit pay system increases base pay each year and is often criticized for not making a significant difference in employee performance. In fact, employees often come to think of merit increases as an entitlement. On the other hand, if an organization uses the lump sum method of incentive pay, each employee receives an incentive in that is not permanently added to base pay. This can amount to a significant savings for the organization over a period of time. It also sends a message to the employee that the incentive is not an entitlement and must be earned.

After an organization decides which incentive payment plan to implement, it must then be decided how to quantify the parameters used to identify levels of performance.

Performance that is tied to overall organizational performance can include factors beyond the control of individual employees, factors such as economic conditions and market conditions. For employees, the goal of overall organizational performance improvement may seem difficult to reach and may leave the employee feeling ineffectual. Performance goals that are localized to a particular group or team, might be more effective if implemented. Incentive payouts as a result of good performance provide the employees a way to see the direct result of their efforts.

Implementation of both a structured pay system that assures equitable compensation for similar work and an incentive plan that will urge workers to excel in their efforts would be very beneficial to an organization such as Starship. Implementation of such a plan might also prevent litigation by employees due to violations of the Equal Pay Act (EPA). The EPA requires that men and women be paid equally for work that is substantially the same. In the recent past, since around 2003, Starship has suffered from some retention issues. The implementation of a pay system that fairly compensates all employees should strengthen the company’s ability to retain those newer employees. The addition of an incentive plan that rewards good performers should also have the same effect.

Table 1: Market Survey of Starship Positions Using Salary.com (Non-Management)

Job Title	75th Percentile
Laborer	$26,096
Woodworker (Carpenter)	$38,658
Machinist	$34,977
Assembler	$24,574
Electrician	$40,612
Plumber/Welder	$35,298
Warehouse Worker	$30,163
Warranty Clerk (Data Entry Clerk)	$24,708
Driver (Truck Driver Heavy)	$35,795
Buyer	$41,593
Dealer Representative (Customer Service Representative)	$29,220
Advertising Specialist (Advertising Coordinator)	$50,237
Accounting Clerk (Accounting Clerk I)	$28,435
Accountant (Accountant I)	$38,118
Senior Accountant (Accountant III)	$56,215
Executive Accountant (Accountant IV)	$66,198
HR Staff Assistant (H R Assistant I)	$38,195
Trainer (Training Specialist I)	$42,388
Compensation/Benefit Specialist	$46,759
HR Generalist (HR Generalist I)	$44,645
Recruiter	$39,738
AutoCAD Drafter	$39,111
Engineer (Mechanical Engineer I)	$53,173
Secretary (Secretary I)	$29,986

Table 2: Market Survey of Starship Management Positions Using Salary.com

Job Title	75th Percentile
President/CEO	$700,703
Sr. Executive VP of Manufacturing	$192,007
VP of Sales and Marketing	$202,044
Controller	$171,094
HR Manager	$80,300
VP of Engineering	$171,872
Production Manager	$75,976
Assembly Manager	$75,976
Parts Manager	$75,976
Warranty Manager	$75,976
Delivery Manager	$75,976
Purchasing Manager	$75,976

Sales Manager	**$75,976**
Marketing Manager	**$75,976**
Engineering Design Manager	**$75,976**
Research Engineer (EngineeringSalary.com)	**$109,058**
Shift Foreman	**$46,228**

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Section 3: Communiqué

To: Executive Team
From: Ron Dotson, Human Resource Manager
Subject:
Date: December 13, 2009

At the present time, Starship Recreational Vehicles does not have a written compensation plan. This contributes to difficulties in recruitment, retention, and could even lead to litigation by employees for violation of the Equal Pay Act.

Nature of Problem

- For several years management has used a very haphazard method of setting starting pay for newly hired employees. This situation has caused pay compression and pay inequity throughout the organization. For example, some non-management employees are being paid more than their supervisors.
- At the present, Starship does not have any incentive plan in place to recognize good performers. This in situation, in fact, encourages employees to just “get by”.

Solution

- A well structured compensation plan can be developed, written into company policy, and implemented. I propose to implement a pay system that assures starting pay for each position at Starship is at the 75th percentile in the job market for this area. The pay system would also incorporate levels of experience that would allow a new hire with documented and verifiable experience to start at a higher level of pay. (Example: entry level for a Woodworker with no experience would be Woodworker I and the entry level for a Woodworker with two years of experience would be Woodworker II)
- Internally, employees that completed “time in grade” requirements would move up to progressively higher grades as they gain experience.
- For positions that have a positive educational requirement, additional education above and beyond the minimum requirement could enable a new hire to start at a higher pay grade. (Example: If the position of Accountant I requires a four year Accounting degree, progressively higher levels of education in Accounting could qualify the applicant to start at the Accountant II level)
- An incentive bonus plan tied to performance would contribute to overall organizational improvement as well as aid in improving recruitment and retention. I propose that a lump sum incentive plan tied to work team performance be implemented. The payout would be a percentage of base pay and would be distributed each six months if the team reached their goal(s). In the event that a team exceeded their goal, the bonus payment to each team member would be increased. In the environment of a manufacturing plant such as Starship in which assembly lines are used to produce a product, it would be relatively simple to track performance of the teams responsible for manufacturing and assembling different sections and systems of the recreational vehicle. For example, the group that

assembles the chassis of the motor home could be identified as a team for purposes of calculating the bonus for each employee on that team. Each team will have certain factors that are quantifiable for determining their bonus percentage. The following are some factors that would reflect job performance: production rates, quality issues, warehouse stock pull rates, customer satisfaction, accuracy of work product, safety, cost savings, meeting of deadlines, issue resolution, results of training, sufficient staffing levels maintained, innovation, and employee satisfaction (see attached sheet for a breakdown for each non-management position at Starship and the bonus/salary percentage for meeting and exceeding goals).

Challenges

- One of the greatest challenges would be shifting the culture of Starship to a new way of thinking, one in which innovation and continuous improvement become priorities.
- Employees at Starship will need to be grouped into teams and given realistic goals to strive towards.
- Funds need to be allocated for performance bonus payouts at the end of the performance cycle (6 months).
- Employees need training on both the new pay system and the incentive system to assure their full understanding and buy-in/cooperation.

Helps

- Sufficient Accounting, HR, and secretarial staff to make the transition to the new pay system smooth.
- Trained HR staff with knowledge of compensation systems to aid in the development of a new system.
- Executive recognition that the pay system needs updated.

Impact on Company

The impact of realigning basic pay rates at Starship is two-fold. The existing system is confusing and creates problems for accounting staff when performing payroll functions. The new system will place all employees in pay grades with logical steps of progression from being newly hired through the stages of their tenure and development with Starship. Aside from the obvious advantages of implementing a new system, there is the Starship employee to consider. It is simply the right thing to do in implementing a fair and progressive system that equitably compensates employees for work that is basically the same. The result of the new system will be higher employee satisfaction at Starship which will in turn raise productivity and quality.

Performance Bonus Pay Out Table

Performance Bonuses will be paid out at the end of each 6 month period using the following factors based on a percentage of an employees' yearly base pay

Job Title	Team Based Bonus Factors	Total Factors	Bonus: Percentage of Salary Based on Performance[1]	
			Bonus Percentage for Each Factor if Goal Reached	Additional Percentage if Goals Exceeded
Laborer	production rate	1	1	1
Woodworker (Carpenter)	production and quality	2	1	1
Machinist	production and quality	2	1	1
Assembler	production rate	1	1	1
Electrician	production rate and quality	2	1	1
Plumber/Welder	production rate and quality	2	1	1
Warehouse Worker	stock pull rate	1	1	1
Warranty Clerk (Data Entry Clerk)	customer satisfaction and accuracy	2	1	1
Driver (Truck Driver Heavy)	safety and delivery on time	2	1	1
Buyer	cost savings and deadlines	2	1	1
Dealer Representative (Customer Service Representative)	customer satisfaction	1	1	1
Advertising Specialist (Advertising Coordinator)	sales and customer satisfaction	2	1	1
Accounting Clerk (Accounting Clerk I)	accuracy	1	1	1
Accountant (Accountant I)	accuracy and deadlines	2	1	1
Senior Accountant (Accountant III)	accuracy and deadlines	2	1	1
Executive Accountant (Accountant IV)	accuracy, deadlines, cost savings	3	1	1
HR Staff Assistant (H R Assistant I)	deadlines	1	1	1
Trainer (Training Specialist I)	training results (i.e., improvement)	1	1	1
Compensation/Benefit Specialist	issue resolution	1	1	1
HR Generalist	issue resolution and employee 1satisfaction	2	1	1
Recruiter	maintaining sufficient staffing levels, new recruit	2	1	1

	turnover			
AutoCAD Drafter	accuracy and meeting deadlines	2	1	1
Engineer	innovation, accuracy, cost saving	3	1	1
Secretary	accuracy	1	1	1
Foreman	production rate, quality, safety	3	1	1
Manager	production rate, quality, safety, cost	4	1	2
Executive	production, quality, safety, sales, cost	5	1	3

1- Example 1: Laborer X 1 Factor = 1 Percent of Salary Bonus for Meeting Goal
Laborer Yearly Salary of $26,096 X Factor of 1 Percent= **$260.96 Payout**
Example 2: Accountant X 3 Factors = 3 percent of Salary Bonus for Exceeding Goals
Accountant Yearly Salary of $38,118 X Factor of 3 Percent= **$1143.54 Payout**

Formula and Rationale for Starting Pay

Organizations that wish to recruit and retain high performing employees must maintain base salary levels that are competitive within their market area and geographic location (Martel, 2003). The better companies typically pay around the 75th percentile range, although some companies prefer to set the base lower and increase the amount of incentive pay that "can" be earned through superior performance. At Starship, there would be an advantage in setting the entry level pay at the 75th percentile in order to attract high quality applicants. In addition, experienced applicants with desirable and verifiable job skills could be hired by Starship at higher than entry level salaries. For example, the position of Carpenter I as listed on Salary.com has a salary level of $38,658 for the Hays, KS area while a Carpenter II's salary is listed at $42,608. The Carpenter II has 2-5 years greater experience which justifies an approximately ten percent increase in salary from the level I position to the level II position. This multilevel system could be built into Starship's pay system by organizing the skilled job positions into levels that equated more experience with each raise in pay. For example, a progression through the Woodworker position would begin at Woodworker I and each two years of experience gained in the position would allow the employee to move up to the next position (Woodworker II, Woodworker III, etc.) until the highest level was reached. This would give workers a goal to reach towards and would be an aid in recruiting and retaining highly skilled employees. Table 1 (see Page 16) lists salaries for all the non-management positions at Starship. The 75th percentile figures listed reflect average wages for the job titles or similar titles if the exact title could not be found in Hays, Kansas area. Table 2 (see Page 17) lists the management and foreman positions and also includes the company's Research Engineer position.

Recommendation for Realigning Existing Salaries

When the new pay system is implemented, there will be Starship employees that have salaries higher than the system's pay grades for their position. Incumbents that are presently overpaid will be frozen at present levels until cost of living increases rise to meet their recommended level of pay, at which time their salaries would be realigned with their position and pay grade.

Those employees that are being paid a salary lower than is listed for their position and pay grade will have adjustments made to their base pay rate. Salary levels could be brought up to minimum recommended levels incrementally over a period of one year to minimize the budgetary impact on the company.

Section 4: Culminating Project Question

Identify and explain what the most important idea you gleaned from this project and how it will likely shape your view on the human resource function in organizations. We are not looking for what you learned about a specific law, but rather the integration and ramifications of implementation within a culture such as Starship's.

The most important idea that I gleaned from this project was the need for any organization to continually update administrative systems. Company culture must also evolve to meet new challenges and market conditions. Although this particular project was focused on a pay system that was not formally documented and had many inequities present, the problem was indicative of Starship's need for updating its' administrative systems in many other areas. Since no particular method was used to structure the pay system no justifications were in place to identify why each employee was compensated at a particular level. In any organization it is important to use an established set of parameters to make personnel decisions. This helps to avoid any possibility of favoritism and helps to assure equity in the treatment of all employees. Established principles, even basic ones, help to avoid both costly litigation and help to promote employee rights, and foster a sense of team spirit rather than an environment of management versus employees.