

Glossary

ability An individual's capability to engage in a specific behavior.

ability to pay The ability of a firm to meet employee wage demands while remaining profitable; a frequent issue in contract negotiations with unions. A firm's ability to pay is constrained by its ability to compete in its product market.

access discrimination Discrimination that focuses on the staffing and allocation decisions made by employers. It denies particular jobs, promotions, or training opportunities to qualified women or minorities. This type of discrimination is illegal under Title VII of the Civil Rights Act of 1964.

across-the-board increases A general adjustment that provides equal increases to all employees.

affirmative action Firms with government contracts must take affirmative steps to hire women and minorities in proportion to their presence in the labor force.

affordable Care Act *See* Patient Protection and Affordable Care Act.

Age Discrimination in Employment Act (ADEA) of 1967 (amended 1978, 1986, and 1990) Legislation that makes nonfederal employees age 40 and over a protected class relative to their treatment in pay, benefits, and other personnel actions. The 1990 amendment is called the Older Workers Benefit Protection Act.

agency theory A theory of motivation that depicts exchange relationships in terms of two parties: agents and principals. According to this theory, both sides of the exchange will seek the most favorable exchange possible and will act opportunistically if given a chance. As applied to executive compensation, agency theory would place part of the executive's pay at risk to motivate the executive (agent) to act in the best interests of the shareholders (principals) rather than in the executive's own self-interests.

all-salaried workforce Pay approach in which not only exempt employees (exempt from provisions of the Fair Labor Standards Act), who traditionally are paid a salary rather than an hourly rate, but also nonexempt employees receive a prescribed amount of money

each pay period that does not primarily depend on the number of hours worked.

alternation ranking A job evaluation method that involves ordering the job description alternately at each extreme. All the jobs are considered. Agreement is reached on which is the most valuable and then the least valuable. Evaluators alternate between the next most valued and next least valued and so on until the jobs have been ordered.

Americans with Disabilities Act Legislation passed in 1990 that requires that reasonable accommodations be provided to permit employees with disabilities to perform the essential elements of a job.

appeals processes Mechanisms are created to handle pay disagreements. They provide a forum for employees and managers to voice their complaints and receive a hearing.

balance sheet approach A method for compensating expatriates based upon the belief that the employee should not suffer financially for accepting a foreign-based assignment. The expatriate's pay is adjusted so that the amounts of the financial responsibilities the expatriate had prior to the assignment are kept at about the same level while on assignment—the company pays for the difference.

balanced scorecard A corporatewide, overall performance measure typically incorporating financial results, process improvements, customer service, and innovation.

base pay *See* base wage.

base salary *See* base wage.

base wage The basic cash compensation that an employer pays for the work performed. Tends to reflect the value of the work itself and ignore differences in individual contributions.

Bedeaux plan Individual incentive plan that provides a variation on straight piecework and standard hour plans. Instead of timing an entire task, a Bedeaux plan requires determination of the time required to complete each simple action of a task. Workers receive a wage incentive for completing a task in less than the standard time.

behaviorally anchored rating scales

(BARS) Variants on standard rating scales in which the various scale levels are anchored with behavioral descriptions directly applicable to jobs being evaluated.

benchmark conversion Process of matching survey jobs by applying the employer's plan to the external jobs and then comparing the worth of the external job with its internal "match."

benchmark (key) job A prototypical job, or group of jobs, used as a reference point for making pay comparisons within or without the organization. Benchmark jobs have well-known and stable contents; their current pay rates are generally acceptable, and the pay differentials among them are relatively stable. A group of benchmark jobs, taken together, contains the entire range of compensable factors and is accepted in the external labor market for setting wages.

benefit ceiling A maximum payout for specific benefit claims (e.g., limiting liability for extended hospital stays to \$150,000).

benefit limitation Limit of disability income payments to some maximum percentage of income and limit of medical/dental coverage for specific procedures to a certain fixed amount.

best-pay practices Compensation practices that allow employers to gain preferential access to superior human resource talent and competencies (i.e., valued assets), which in turn influence the strategies the organization adopts.

BLS *See* Bureau of Labor Statistics.

bonus A lump-sum payment to an employee in recognition of goal achievement.

bottom-up approach to pay budgeting Approach in which individual employees' pay rates for the next plan year are forecasted and summed to create an organization's total budget.

bourse market A market that allows haggling over terms and conditions until an agreement is reached.

branding Establishing an image or reputation associated with a product or service. As related to total compensation systems, it seeks to establish a reputation that will influence employees' and the public's perceptions about how an organization pays its employees.

Brito v. Zia Company Benchmark case that interpreted performance evaluation as a test, subject to validation requirements, and used these evaluations based

on a rating format to lay off employees, resulting in a disproportionate number of minorities being discharged.

broad banding Collapsing a number of salary grades into a smaller number of broad grades with wide ranges.

broad-based option plans (BBOPs) Stock grants: A company gives employees shares of stock over a designated time period.

budgeting A part of the organization's planning process; helps to ensure that future financial expenditures are coordinated and controlled. It involves forecasting the total expenditures required by the pay system during the next period as well as the amount of the pay increases. Bottom up and top down are the two typical approaches to the process.

Bureau of Labor Statistics (BLS) A major source of publicly available pay data. It also calculates the consumer price index.

Cafeteria-style compensation Like in a cafeteria line, employees have a fixed dollar amount to choose from among many benefit choices.

cafeteria (flexible) benefit plan A benefit plan in which employees have a choice as to the benefits they receive within some dollar limit. Usually a common core benefit package is required (e.g., specific minimum levels of health, disability, retirement, and death benefits) plus elective programs from which the employee may select a set dollar amount. Additional coverage may be available through employee contributions.

capital appreciation plans *See* long-term incentives.

career path A progression of jobs within an organization.

cash balance plan A defined benefit plan that looks like a defined contribution plan. Employees have a hypothetical account, such as a 401(k), into which is deposited what is typically a percentage of annual compensation. The dollar amount grows both from contributions by the employer and by some predetermined interest rate (e.g., often set equal to the rate given on 30-year treasury certificates).

central tendency A midpoint in a group of measures.

central tendency error A rating error that occurs when a rater consistently rates a group of employees at or close to the midpoint of a scale irrespective of the true score performance of ratees. Avoiding extremes (both high and low) in ratings across employees.

churn *See* turnover effect.

Civil Rights Act of 1964 Legislation that prohibits, under Title VII, discrimination in terms and conditions of employment (including benefits) that is based on race, color, religion, sex, or national origin.

Civil Rights Act of 1991 Legislation that clarifies the standards for proving discrimination. Allows jury trials and damage awards.

claims processing Procedure that begins when an employee asserts that a specific event (e.g., disablement, hospitalization, unemployment) has occurred and demands that the employer fulfill a promise for payment. As such, a claims processor must first determine whether the act has, in fact, occurred.

classification Job evaluation method that involves slotting job descriptions into a series of classes or grades that cover the range of jobs and that serve as a standard against which the job descriptions are compared.

clone error A rating error that occurs when a rater gives better ratings to individuals who are like the rater in behavior or personality.

coinsurance Benefit option whereby employees share in the cost of a benefit provided to them.

commission Payment tied directly to achievement of performance standards. Commissions are directly tied to a profit index (sales, production level) and employee costs; thus, they rise and fall in line with revenues.

committee a priori judgment approach Compensable factor importance weights are assigned by a committee based on judgment.

community rating When insurance rates are based on the medical experience of that entire community. Higher use of medical facilities and services results in higher premiums.

comparable worth A policy that women performing jobs judged to be equal on some measure of inherent worth should be paid the same as men, excepting allowable differences, such as seniority, merit, production-based pay plans, and other non-sex-related factors. Objective is to eliminate use of the market in setting wages for jobs held by women.

compa-ratio An index that helps assess how managers actually pay employees in relation to the midpoint of the pay range established for jobs. It estimates how well actual practices correspond to

intended policy. Calculated as average rates actually paid divided by range midpoint.

compensable factor Job attributes that provide the basis for evaluating the relative worth of jobs inside an organization. A compensable factor must be work-related, business-related, and acceptable to the parties involved.

compensating differentials Economic theory that attributes the variety of pay rates in the external labor market to differences in attractive as well as negative characteristics in jobs. Pay differences must overcome negative characteristics to attract employees.

compensation All forms of financial returns and tangible services and benefits employees receive as part of an employment relationship.

compensation at risk *See* risk sharing.

compensation differentials Differentials in pay among jobs across and within organizations, and differences among individuals in the same job in an organization.

compensation objectives The desired results of the pay system. The basic pay objectives include efficiency, fairness, and compliance with laws and regulations. Objectives shape the design of the pay system and serve as the standard against which the success of the pay system is evaluated.

competency Basic knowledge and abilities employees must acquire or demonstrate in a competency-based plan in order to successfully perform the work, satisfy customers, and achieve business objectives.

competency analysis A systematic process to identify and collect information about the competencies required for the person and the organization to be successful.

competency-based system Compensation approach that links pay to the depth and scope of competencies that are relevant to doing the work. Typically used in managerial and professional work where what is accomplished may be difficult to identify.

competitive intelligence The collection and analysis of information about external conditions and competitors that will enable an organization to be more competitive.

competitive position The comparison of the compensation offered by one employer relative to that paid by its competitors.

compliance Compliance as a pay objective means conforming to federal and state compensation laws and regulations.

compression The existence of very narrow pay differentials among jobs at different organization levels as a result of wages for jobs filled from the outside (frequently these are entry-level jobs) increasing faster than the internal pay structure.

congruency The degree of consistency or “fit” between the compensation system and other organizational components such as strategy, product-market stage, culture and values, employee needs, and union status.

Consolidated Omnibus Budget Reconciliation Act (COBRA) Legislation that provides that employees who resign or are laid off through no fault of their own are eligible to continue receiving health coverage under the employer’s plan at a cost borne by the employee.

consumer-directed health care plans Costs link consumer choice of more or less expensive options to higher or lower individual costs.

consumer-driven health care benefits *See* consumer-directed health care plans.

Consumer Price Index (CPI) A measure of the changes in prices in a fixed market basket of goods and services purchased by a hypothetical average family. *Not* an absolute measure of living costs; rather, a measure of how fast costs are changing. Published by the Bureau of Labor Statistics, U.S. Department of Labor.

content The work performed in a job and how it gets done (tasks, behaviors, knowledge required, etc.).

content theories Motivation theories that focus on what motivates people rather than on how people are motivated. Maslow’s need hierarchy theory and Herzberg’s two-factor theory are in this category.

contingent employees A growing workforce that includes flexible workers, temporaries, part-time employees, and independent contractors whose employment is of a limited duration.

contingent workers *See* contingent employees.

conventional job analysis Methods (e.g., functional job analysis) that typically involve an analyst using a questionnaire in conjunction with structured interviews of job incumbents and supervisors. The methods place considerable reliance on analysts’ ability to understand the work performed and to accurately describe it.

coordination of benefits Process of ensuring that employer coverage of an employee does not “double

pay” because of identical protection offered by the government (private pension and social security coordination) or a spouse’s employer.

copay Copay requires that employees pay a fixed or percentage amount for coverage.

core employees Workers with whom a long-term, full-time work relationship is anticipated.

correlation coefficient A common measure of association that indicates how changes in one variable are related to changes in another.

cost containment An attempt made by organizations to contain benefit costs, such as imposing deductibles and coinsurance on health benefits or replacing defined benefit pension plans with defined contribution plans.

cost cutter The cost cutter’s efficiency-focused strategy stresses doing more with less by minimizing costs, encouraging productivity increases, and specifying in greater detail exactly how jobs should be performed.

cost of living Actual individual expenditures on goods and services. The only way to measure it accurately is to examine the expense budget of each employee.

cost-of-living adjustments (COLAs) Across-the-board wage and salary increases or supplemental payments based on changes in some index of prices, usually the consumer price index (CPI). If included in a union contract, COLAs are designed to increase wages automatically during the life of the contract as a function of changes in the CPI.

cost-of-living increase Same as across-the-board increase, except magnitude based on change in cost of living (e.g., as measured by the consumer price index [CPI]).

CPI *See* Consumer Price Index.

criterion contamination Allowing nonperformance factors to affect performance scores.

criterion deficiency A criterion is deficient if it fails to include all of the dimensions relevant to job performance (e.g., excluding keyboarding skills for a secretary’s job performance).

criterion pay structure A pay structure to be duplicated with a point plan.

culture The informal rules, rituals, and value systems that influence how people behave.

customer-driven health care Medical care package where the employer finances the cost up to a dollar maximum and the employees search for options that best fit their specific needs.

customer-focused business strategy The customer-focused business strategy stresses delighting customers and bases employee pay on how well they achieve this.

Davis-Bacon Act Legislation that requires that most federal contractors pay wage rates prevailing in the area.

deductibles Employees cost-saving tool by which the employee pays the first x number of dollars when a benefit is used (e.g., hospitalization). The employer pays subsequent costs up to some predetermined maximum.

deferred compensation Pay approach that provides income to an employee at some future time as compensation for work performed now. Types of deferred compensation programs include stock option plans and pension plans.

defined benefit plan A benefit option or package in which the employer agrees to give the specified benefit without regard to cost maximum. Opposite of defined contribution plan.

defined contribution plan A benefit option or package in which the employer negotiates a dollar maximum payout. Any change in benefit costs over time reduces the amount of coverage unless new dollar limits are negotiated.

delayering Eliminating some layers or job levels in the pay structure.

differentials Pay differences among levels within the organization, such as the difference in pay between adjacent levels in a career path, between supervisors and subordinates, between union and nonunion employees, and between executives and regular employees.

direct compensation Pay received directly in the form of cash (e.g., wages, bonuses, incentives).

disparate impact Discrimination theory that outlaws the application of pay practices that may appear to be neutral but have a negative effect on females or minorities unless those practices can be shown to be business-related.

disparate treatment Discrimination theory that outlaws the application of different standards to different classes of employees unless the standards can be shown to be business-related.

distributive justice Fairness in the amount of reward distributed to employees.

Dodd-Frank Act Requires reporting by all public companies on the ratio of CEO pay relative to the median pay of employees.

double-track system A framework for professional employees in an organization whereby at least two general tracks of ascending compensation steps are available: (1) a managerial track to be ascended through increasing responsibility for supervision of people and (2) a professional track to be ascended through increasing contributions of a professional nature.

drive theory A motivational theory that assumes that all behavior is induced by drives (i.e., energizers such as thirst, hunger, sex) and that present behavior is based in large part on the consequences or rewards of past behavior.

dual-career ladders Presence of two different ways to progress in an organization, each reflecting different types of contribution to the organization's mission. The managerial ladder ascends through increasing responsibility for supervision or direction of people. The professional track ascends through increasing contributions of a professional nature that do not mainly entail the supervision of employees.

dual coverage In families in which both spouses work, the coverage of specific claims from each spouse's employment benefit package. Employers cut costs by specifying payment limitations under such conditions.

earnings-at-risk plans *See* risk sharing.

e-benefits Employee benefits, from information to applications, posted on company intranet by employer, which allows employee access 24/7 and employer to update easily.

economic rent Confusingly, rent has two different meanings for economists. The first is the commonplace definition: the income your landlord receives from your apartment. The second, also known as economic rent, is the difference between what a factor of production is paid and how much it would need to be paid to remain in its current use. If an employee is paid \$10,000 a week but would be willing to work for only \$1,000, that employee's economic rent is \$9,000 a week.

efficiency wage theory A theory that explains why firms are rational in offering higher-than-necessary wages.

employee benefits The parts of the total compensation package, other than pay for time worked, provided to employees in whole or in part by employer payments (e.g., life insurance, pension, workers' compensation, vacation).

employee contributions Comparisons among individuals doing the same job for the same organization.

Employee Retirement Income Security Act (ERISA)

For employers who choose to have a retirement plan, this act sets some formidable rules that must be followed to be in compliance.

employee stock ownership plan (ESOP)

A retirement plan in which the company contributes its stock as the retirement benefit.

employer of choice The view that a firm's external wage competitiveness is just one facet of its overall human resource policy and that competitiveness is more properly judged on overall policies. Challenging work, great colleagues, or an organization's prestige must be factored into an overall consideration of attractiveness.

entitlement Employee belief that returns and/or rewards are due regardless of individual or company performance.

entry jobs Jobs that are filled from the external labor market and whose pay tends to reflect external economic factors rather than an organization's culture and traditions.

equal employment opportunity A mandate that all firms make employment decisions that are "blind" to minority/gender status.

Equal Pay Act (EPA) of 1963 An amendment to the Fair Labor Standards Act of 1938 that prohibits pay differentials on jobs that are substantially equal in terms of skills, efforts, responsibility, and working conditions, except when they are the result of bona fide seniority, merit, production-based systems, or any other job-related factor other than sex.

equity theory A theory proposing that in an exchange relationship (such as employment) the equality of outcome/input ratios between a person and a comparison other (a standard or relevant person/group) will determine fairness or equity. If the ratios diverge from each other, the person will experience reactions of unfairness and inequity.

ESOP (employee stock ownership plan) A plan in which a company borrows money from a financial institution by using its stock as a collateral for the loan. Principal and interest loan repayments are tax-deductible. With each loan repayment, the lending institution releases a certain amount of stock being held as security. The stock is then placed into an employee stock ownership trust (ESOT) for distribution at no cost to all employees.

The employees receive the stock upon retirement or separation from the company. TRASOPs and PAYSOPs are variants of ESOPs.

essay format An open-ended performance appraisal format. The descriptors used can range from comparisons with other employees to adjectives, behaviors, and goal accomplishment.

essential elements The parts of a job that cannot be assigned to another employee. The Americans with Disabilities Act requires that if applicants with disabilities can perform the essential elements of a job, reasonable accommodations must then be made to enable the qualified individuals to perform the job.

exchange value The price of labor (the wage) determined in a competitive market; in other words, labor's worth (the price) is whatever the buyer and seller agree upon.

Executive Order 11246 Law signed in 1965 that prohibits discrimination by federal contractors and subcontractors in all employment practices on basis of race, sex, color, religion, or national origin.

executive perquisites (perks) Special benefits made available to top executives (and sometimes other managerial employees). May be taxable income to the receiver. Company-related perks may include luxury offices; special parking; and company-paid membership in clubs/associations, hotels, and resorts. Personal perks include low-cost loans, personal and legal counseling, free home repairs and improvements, and so on. Since 1978, various tax and agency rulings have slowly been requiring that companies place a value on perks, thus increasing the taxable income of executives.

exempt jobs Jobs not subject to provisions of the Fair Labor Standards Act with respect to minimum wage and overtime. Exempt employees include most executives, administrators, professionals, and outside sales representatives.

exercise period Time during which, or after which, an individual who has been granted stock options is permitted to exercise them.

expatriate colony A section of a large city where expatriates tend to locate and form a community that takes on some of the cultural flavor of their home country.

expatriates Employees assigned outside their base country for any period of time in excess of one year.

expectancy theory A motivation theory that proposes that individuals will select an alternative based on how this choice relates to outcomes such as rewards. The choice made is based on the strength or value of the outcome and on the perceived probability that this choice will lead to the desired outcome.

experience rating Rating system in which insurance premiums vary directly with the number of claims filed. An experience rating is applied to unemployment insurance and workers' compensation and may be applied to commercial health insurance premiums. In a *community rating system*, insurance rates are based on the medical experience of the entire community.

external competitiveness The pay relationships among organizations; focuses attention on the competitive positions reflected in these relationships.

extrinsic rewards Rewards that a person receives from sources other than the job itself. They include compensation, supervision, promotions, vacations, friendships, and all other important outcomes apart from the job itself.

face validity The determination of the relevance of a measuring device on the basis of "appearance" only.

factor scales Measures that reflect different degrees within each compensable factor. Most commonly five to seven degrees are defined. Each degree may be anchored by typical skills, tasks and behaviors, or key job titles.

factor weights Measures that indicate the importance of each compensable factor in a job evaluation system. Weights can be derived through either a committee judgment or a statistical analysis.

Fair Labor Standards Act of 1938 (FLSA) A federal law governing minimum wage, overtime pay, equal pay for men and women in the same types of jobs, child labor, and record-keeping requirements.

Family and Medical Leave Act Legislation passed in 1993 that entitles eligible employees to receive unpaid leave up to 12 weeks per year for specified family or medical reasons, such as caring for ill family members or adopting a child.

Federal Insurance Contribution Act (FICA) The source of social security contribution withholding requirements. The FICA deduction is paid by both employer and employee.

first impression error Rating error in which the rater develops a negative (positive) opinion of an

employee early in the review period and allows it to negatively (positively) color all subsequent perceptions of performance.

flat rate A single rate, rather than a range of rates, for all individuals performing a certain job. Ignores seniority and performance differences.

flexible benefit plan Benefit package in which employees are given a core of critical benefits (necessary for minimum security) and permitted to expend the remainder of their benefit allotment on options that they find most attractive.

flexible benefits *See* cafeteria (flexible) benefit plan.

flexible compensation The allocation of employee compensation in a variety of forms tailored to organization pay objectives and/or the needs of individual employees.

forms of compensation The various types of pay, which may be received directly in the form of cash (e.g., wages, bonuses, incentives) or indirectly through series and benefits (e.g., pensions, health insurance, vacations). This definition excludes other forms of rewards or returns that employees may receive, such as promotion, recognition for outstanding work behavior, and the like.

forms of pay *See* forms of compensation.

401(k) A 401(k) plan, so named for the section of the Internal Revenue Code describing the requirements, is a savings plan in which employees are allowed to defer pretax income.

gain-sharing (group incentive) plans Incentive plans that are based on some measure of group performance rather than individual performance. Taking data on a past year as a base, group incentive plans may focus on cost savings (e.g., the Scanlon, Rucker, and Improshare plans) or on profit increases (profit-sharing plans) as the standard for distributing a portion of the accrued funds among relevant employees.

Gantt plan Individual incentive plan that provides for variable incentives as a function of a standard expressed as time period per unit of production. Under this plan, a standard time for a task is purposely set at a level requiring high effort to complete.

gender pay equity *See* comparable worth.

General Schedule (GS) A job structure used by the U.S. Office of Personnel Management for white-collar employees. It has 15 "grades" (classes) plus 5 more levels on an Executive Schedule.

geographic differentials Local conditions that employees in a specific geographic area encounter, such as labor shortages and differences in housing costs.

global approach Substitution of a particular skill and experience level for job descriptions in determining external market rates. Includes rates for all individuals who possess that skill.

golden parachute A contract clause that calls for the payment of a large lump sum in specified circumstances of an executive's termination, for example, following the company's acquisition by another firm.

Green Circle Rate Pay rate that is below the minimum rate for a job or pay range for a grade

group incentive plans *See* gain-sharing (group incentive) plans.

halo error Rating error in which an appraiser gives favorable ratings to all job duties based on impressive performance in just one job function. For example, a rater who hates tardiness rates a prompt subordinate high across all performance dimensions exclusively because of this one characteristic.

Halsey 50–50 method Individual incentive method that provides for variable incentives as a function of a standard expressed as time period per unit of production. This plan derives its name from the shared split between worker and employer of any savings in direct costs.

Hay job evaluation system A point factor system that evaluates jobs with respect to know-how, problem solving, and accountability. It is used primarily for exempt (managerial/professional) jobs.

Health Maintenance Act of 1973 Legislation that requires that employers offer alternative health coverage options (e.g., health maintenance organizations) to employees.

health maintenance organization (HMO) A nontraditional health care delivery system. HMOs offer comprehensive benefits and outpatient services, as well as hospital coverage, for a fixed monthly prepaid fee.

health reimbursement arrangements (HRAs) The employer sets up an account for a specified amount. When an employee has qualified medical costs, they're submitted for reimbursement until the account is depleted.

health savings accounts (HSA) An HSA is a tax-exempt account built up through contributions of the

employee or the employer, or both, that can be used to pay for health care.

hierarchies (job structures) Jobs ordered according to their relative content and/or value.

high-commitment practices Factors such as high base pay, sharing successes only (not risks), guaranteed employment security, promotions from within, training and skill development, employee ownership, and long-term perspective. High-commitment practices are believed to attract and retain a high-committed workforce that will become the source of competitive advantage.

hit rate The ability of a job evaluation plan to replicate a predetermined, agreed-upon job structure.

horn error The opposite of halo error; downgrading an employee across all performance dimensions exclusively because of poor performance on one dimension.

human capital theory An economic theory proposing that the investment one is willing to make to enter an occupation is related to the returns one expects to earn over time in the form of compensation.

human resource planning system Put in place by the benefit administrator to make realistic estimates of human resource needs and avoid a pattern of hasty hiring and morale-breaking terminations.

Improshare (IMproved PROductivity through SHARing) A gain-sharing plan in which a standard is developed to identify the expected hours required to produce an acceptable level of output. Any savings arising from production of agreed-upon output in fewer-than-expected hours are shared by the firm and the worker.

incentive Inducement offered in advance to influence future performance (e.g., sales commissions).

incentive effect The degree to which pay influences individual and aggregate motivation among employees at any point in time.

incentive stock options (ISO) A form of deferred compensation designed to influence long-term performance. Gives an executive the right to pay today's market price for a block of shares in the company at a future time. No tax is due until the shares are sold.

increase guidelines Inherent compensation system controls. They specify the amount and timing of pay increases on an organizationwide basis.

indirect compensation Noncash benefits provided to an employee.

individual incentive plans Incentive compensation that is tied directly to objective measures of individual production (e.g., sales commissions).

individual retirement accounts (IRAs) Tax-favored retirement savings plans that individuals can establish themselves.

innovator The innovator stresses new products and short response time to market trends.

instrumentality The perceived contingency that an outcome (performing well) has another outcome (a reward such as pay).

internal alignment The pay relationships among jobs or skill levels within a single organization; focuses attention on employee and management acceptance of those relationships. It involves establishing equal pay for jobs of equal worth and acceptable pay differentials for jobs of unequal worth.

interrater reliability The extent of agreement among raters rating the same individual, group, or phenomena.

interval scaling A particular numerical point difference has the same meaning on all parts of a scale.

inventories Questionnaires in which tasks, behaviors, and abilities are listed. The core of all quantitative job analysis.

job analysis The systematic process of collecting information related to the nature of a specific job. It provides the knowledge needed to define jobs and conduct job evaluation.

job-based structure Structure that relies on work content—tasks, behaviors, responsibilities.

job-based systems Systems that focus on jobs as the basic unit of analysis to determine the pay structure; hence, job analysis is required.

job classification (grade) A grouping of jobs that are considered substantially similar for pay purposes.

job content Information that describes a job. May include responsibility assumed and/or the tasks performed.

job description A summary of the most important features of a job. It identifies the job and describes the general nature of the work, specific task responsibilities, outcomes, and the employee characteristics required to perform the job.

job evaluation A systematic procedure designed to aid in establishing pay differentials among jobs within a single company. It includes classification, comparison of the relative worth of jobs, blending internal and external market forces, measurement, negotiation, and judgment.

job evaluation committee Group that may be charged with the responsibility of (1) selecting a job evaluation system, (2) carrying out or at least supervising the process of job evaluation, and (3) evaluating the success with which the job evaluation has been conducted. Its role may vary among organizations, but its members usually represent all important constituencies within the organization.

job evaluation manual Handbook that contains information on the job evaluation plan and is used as a “yardstick” in evaluating jobs. It includes a description of the job evaluation method used, descriptions of all jobs, and, if relevant, a description of compensable factors, numerical degree scales, and weights; may also contain a description of the available review or appeals procedure.

job family A group of jobs involving work of the same nature but requiring different skill and responsibility levels (e.g., computing and account recording are a job family; bookkeeper, accounting clerk, and teller are jobs within that family).

job grade *See* pay grade.

job hierarchy A grouping of jobs based on their job-related similarities and differences and on their value to the organization’s objectives.

job pricing The process of assigning pay to jobs, based on thorough job analysis and job evaluation.

job specifications The job specifications that can be used as a basis for hiring are knowledge, skills, and abilities required to adequately perform the tasks.

job structure Relationship among jobs inside an organization, based on work content and each job’s relative contribution to achieving the organization’s objectives.

just wage doctrine A theory of job value that posits a “just” or equitable wage for any occupation based on that occupation’s place in the larger social hierarchy. According to this doctrine, pay structures should be designed on the basis of societal norms, customs, and tradition, not on the basis of economic and market forces.

key jobs *See* benchmark (key) job.

labor demand The employment level organizations require. An increase in wage rates will reduce the demand for labor, other factors constant. Thus, the labor demand curve (the relationship between employment levels and wage rates) is downward-sloping.

labor supply The different numbers of employees available at different pay rates.

lag pay-level policy A wage structure that is set to match market rates at the beginning of the plan year only. The rest of the plan year, internal rates will lag behind market rates. Its objective is to offset labor costs, but it may hinder a firm's ability to attract and retain quality employees.

lead pay-level policy A wage structure that is set to lead the market throughout the plan year. Its aim is to maximize a firm's ability to attract and retain quality employees and to minimize employee dissatisfaction with pay.

legally required benefits Benefits that are required by statutory law: workers' compensation, social security, and unemployment compensation are required in the United States. Required benefits vary among countries. Companies operating in foreign countries must comply with host-country compensation and benefit mandates.

leniency error Rating error in which the rater consistently rates someone higher than is deserved.

leveling Weighting market survey data according to the closeness of the job matches.

lifetime employment Most prevalent in Japanese companies, the notion of employees' staying with the same company for their entire career, despite possible poor performance on the part of either an employee or the company.

line of sight An employee's ability to see how individual performance affects incentive payout. Employees on a straight piecework pay system have a clear line of sight—their pay is a direct function of the number of units they produce; employees covered by profit sharing have a fuzzier line of sight—their payouts are a function of many forces, only one of which is individual performance.

living wage Pay legislation in some U.S. cities that requires wages well above the federal minimum wage. Often applies only to city government employees.

local country nationals (LCNs) Citizens of a country in which a U.S. foreign subsidiary is located. LCNs' compensation is tied either to local wage rates or to the rates of U.S. expatriates performing the same job.

long-term disability (LTD) plan An insurance plan that provides payments to replace income lost through an inability to work that is not covered by other legally required disability income plans.

long-term incentives Inducements offered in advance to influence longer-rate (multiyear) results. Usually offered to top managers and professionals to get them to focus on long-term organization objectives.

low-high approach Use of the lowest- and highest-paid benchmark job in the external market to anchor an entire skill-based structure.

lump-sum award Payment of entire increase (typically merit-based) at one time. Because amount is not factored into base pay, any benefits tied to base pay do not increase.

lump-sum bonus *See* lump-sum award.

managed care Steps taken to contain health care and workers' compensation costs, such as switching to preferred provider organizations for health care delivery, utilization-review procedures, and medical bill audits.

management by objectives (MBO) An employee planning, development, and appraisal procedure in which a supervisor and a subordinate, or group of subordinates, jointly identify and establish common performance goals. Employee performance on the absolute standards is evaluated at the end of the specified period.

managing compensation The fourth dimension in the pay model: ensuring the right people get the right pay for achieving the right objectives in the right way.

marginal product of labor The additional output associated with the employment of one additional human resource unit, with other factors held constant.

marginal productivity theory (MPT) In contrast to Marxist "surplus value" theory, a theory that focuses on labor demand rather than supply and argues that employers will pay a wage to a unit of labor that equals that unit's use (not exchange) value. That is, work is compensated in proportion to its contribution to the organization's production objectives.

marginal revenue of labor The additional revenue generated when the firm employs one additional unit of human resources, with other factors held constant.

market-based health care *See* customer-driven health care.

market pay line Using key/benchmark jobs, a market pay policy line can be constructed that shows external market pay survey data as a function of internal job evaluation points. In many cases, the market pay policy line is obtained by using regression analysis, which yields an equation of the form "market pay = intercept +

slope \times job evaluation points.” By plugging the job evaluation points for any job (both benchmark and non-benchmark jobs) into the equation, the predicted pay for each job can be obtained.

market pricing Setting pay structures almost exclusively through matching pay for a very large percentage of jobs with the rates paid in the external market.

maturity curve A plot of the empirical relationship between current pay and years since a professional has last received a degree (YSLD), thus allowing organizations to determine a competitive wage level for specific professional employees with varying levels of experience.

Medicare Prescription Drug, Improvement and Modernization Act of 2003 Seniors must choose among a variety of plans written in bureaucratic hieroglyphics.

Mental Health Act Law passed in 1997 that stipulates that mental illness must be covered to same extent that other medical conditions are covered.

merit Bonus *See* lump-sum bonus.

merit increase guidelines Specifications that tie pay increases to performance. They may take one of two forms: The simplest version specifies pay increases permissible for different levels of performance. More complex guidelines tie pay not only to performance but also to position in the pay range.

merit pay A reward that recognizes outstanding past performance. It can be given in the form of lump-sum payments or as increments to the base pay. Merit programs are commonly designed to pay different amounts (often at different times) depending on the level of performance.

Merrick plan Individual incentive plan that provides for variable incentives as a function of units of production per time period. It works like the Taylor plan, but three piecework rates are set: (1) high—for production exceeding 100 percent of standard; (2) medium—for production between 83 and 100 percent of standard; and (3) low—for production less than 83 percent of standard.

minimum wage A minimum-wage level for most Americans established by Congress as part of the Fair Labor Standards Act of 1938.

motivation An individual’s willingness to engage in some behavior. Primarily concerned with (1) what energizes human behavior, (2) what directs or channels such behavior, and (3) how this behavior is maintained or sustained.

multiskill systems Systems that link pay to the number of different jobs (breadth) an employee is certified to do, regardless of the specific job he or she is doing.

National Electrical Manufacturers Association

(NEMA) plan A point factor job evaluation system that evolved into the National Position Evaluation Plan sponsored by NMTA associates.

National Metal Trades Association (NMTA)

plan A point factor job evaluation plan for production, maintenance, and service personnel.

noncontributory financing Benefit option in which an employee benefit is fully paid for by the employer.

nonexempt employees Employees who are subject to the provisions of the Fair Labor Standards Act.

nonexempt jobs Jobs subject to provisions of the Fair Labor Standards Act with respect to minimum wage and overtime. Exempt employees include most executives, administrators, professionals, and outside sales representatives.

nonqualified deferred compensation plans A plan does not qualify for tax exemption if an employer who pays high levels of deferred compensation to executives does not make proportionate contributions to lower-level employees.

nonqualified stock options Form of compensation that gives an executive the right to purchase stock at a stipulated price; the excess over fair market value is taxed as ordinary income.

Obamacare *See* Patient Protection and Affordable Care Act.

objective performance-based pay systems Pay approach that focuses on objective performance standards (e.g., counting output) derived from organizational objectives and a thorough analysis of the job (e.g., incentive and gain-sharing plans).

occupational diseases Diseases that arise out of the course of employment, not including “ordinary diseases of life,” for which workers’ compensation claims can be filed.

offshoring Offshoring refers to the movement of jobs to locations beyond a country’s borders.

on-call employees Employees who must respond to work-related assignments/problems 24 hours a day. Firefighters, SPCA humane officers, and other emergency personnel are traditional examples. Increasingly, this group includes technical workers such as software service personnel.

organizational culture The composite of shared values, symbols, and cognitive schemes that ties people together in the organization.

outlier An extreme value that may distort some measures of central tendency.

outsourcing The practice of hiring outside vendors to perform functions that do not directly contribute to business objectives and in which the organization does not have a comparative advantage.

paid-time-off (PTO) plan Eliminates the distinction between sick days and other paid days off, thus eliminating the incentive to “fake” illness.

paired comparison ranking A ranking job evaluation method that involves comparing all possible pairs of jobs under study.

Patient Protection and Affordable Care Act Enacted by Congress and survivor of a Supreme Court Test, this law requires the vast majority of Americans to either have health insurance or to pay a tax for not doing so.

pay discrimination Discrimination usually defined as including (1) access discrimination, which occurs when qualified women and minorities are denied access to particular jobs, promotions, or training opportunities; and (2) valuation discrimination, which takes place when minorities or women are paid less than white males for performing substantially equal work. Both types of discrimination are illegal under Title VII of the Civil Rights Act of 1964. Some argue that valuation discrimination can also occur when men and women hold entirely different jobs (in content or results) that are of comparable worth to the employer. Existing federal laws do not support the “equal pay for work of comparable worth” standard.

pay equity (also gender pay equity) *See* comparable worth.

pay-for-knowledge plans A compensation practice whereby employees are paid for the number of different jobs they can adequately perform or the amount of knowledge they possess.

pay-for-performance plans Pay that varies with some measure of individual or organizational performance, such as merit pay, lump-sum bonus plans, skill-based pay, incentive plans, variable pay plans, risk sharing, and success sharing.

pay forms The various types of payments, or pay mix, that make up total compensation.

pay grade One of the classes, levels, or groups into which jobs of the same or similar values are grouped for compensation purposes. All jobs in a pay grade have the same pay range—maximum, minimum, and midpoint.

pay increase guidelines The mechanisms through which levels are translated into pay increases and, therefore, dictate the size and time of the pay reward for good performance.

pay level An average of the array of rates paid by an employer.

pay-level policies Decisions concerning a firm’s level of pay vis-à-vis product and labor market competitors. There are three classes of pay-level policies: to lead, to match, or to follow competition.

pay-level rise The percentage increase in the average wage rate paid. Calculated as: $100 \times [(Average\ pay-year\ end - average\ pay\ at\ year\ beginning) / Average\ pay\ at\ year\ beginning]$.

pay mix (or pay forms) Relative emphasis among compensation components such as base pay, merit, incentives, and benefits.

pay objectives *See* compensation objectives.

pay-policy line Representation of the organization’s pay-level policy relative to what competitors pay for similar jobs.

pay ranges The range of pay rates from minimum to maximum set for a pay grade or class. It puts limits on the rates an employer will pay for a particular job.

pay satisfaction A function of the discrepancy between employees’ perceptions of how much pay they should receive and how much pay they do receive. If these perceptions are equal, an employee is said to experience pay satisfaction.

pay structures The array of pay rates for different jobs within a single organization; they focus attention on differential compensation paid for work of unequal worth.

pay (wage) survey The systematic process of collecting information and making judgments about the compensation paid by other employers. Pay (wage) survey data are useful in designing pay levels and structures.

pay techniques Mechanisms or technologies of compensation management, such as job analysis, job descriptions, market surveys, job evaluation, and the like, that tie the four basic pay policies to the pay objectives.

pay-with-competition policy Policy that tries to ensure that a firm's labor costs are approximately equal to those of its competitors. It seeks to avoid placing an employer at a disadvantage in pricing products or in maintaining a qualified workforce.

pension benefit guaranty corporation (PBGC) Agency to which employers are required to pay insurance premiums to protect individuals from bankrupt companies (and pension plans!). In turn, the PBGC guarantees payment of vested benefits to employees formerly covered by terminated pension plans.

pension plan A form of deferred compensation. All pension plans usually have four common characteristics: They (1) involve deferred payments to a former employee (or surviving spouse) for past services rendered; (2) specify a normal retirement age, at which time benefits begin to accrue to the employee; (3) specify a formula for calculating benefits, and (4) provide for integration with social security benefits.

performance-dimension training Training that gives performance appraisers an understanding of the dimensions on which to evaluate employee performance.

performance evaluation (performance appraisal) A process to determine correspondence between worker behavior/task outcomes and employer expectations (performance standards).

performance metrics Quantitative measures of job performance.

performance share/unit plans Cash or stock awards earned through achieving specific goals.

performance standard An explicit statement of what work output is expected from employees in exchange for compensation.

performance-standard training Training that gives performance appraisers a frame of reference for making ratee appraisals.

perquisites (perks) The extras bestowed on top management, such as private dining rooms, company cars, and first-class airfare.

person-based structure A person-based structure shifts the focus to the employee: the skills, knowledge, or competencies the employee possesses, whether or not they are used in the employee's particular job.

personal care account (PCA) A tool used by employers to gain some control over health care costs while still providing health security to workers. The employer establishes a high deductible paid by

employees but cushions the blow by setting up a PCA to cover part of the deductible cost.

phantom stock plan Stock plan in which an increase in stock price at a fixed future date determines the cash or stock award. It is called a phantom plan because the organization in question is not publicly traded. Stock price, therefore, is an illusion. The "phantom price" is derived from standard financial accounting procedures.

planned pay-level rise The percentage increase in average pay that is planned to occur after considering such factors as anticipated rates of change in market data, changes in cost of living, the employer's ability to pay, and the efforts of turnover and promotions. This index may be used in top-down budgeting to control compensation costs.

point (factor) method A job evaluation method that employs (1) compensable factors, (2) factor degrees numerically scaled, and (3) weights reflecting the relative importance of each factor. Once scaled degrees and weights are established for each factor, each job is measured against each compensable factor and a total score is calculated for each job. The total points assigned to a job determine the job's relative value and hence its location in the pay structure.

point-of-service plan (POS) A point-of-service plan is a hybrid plan combining health maintenance organization (HMO) and preferred provider organization (PPO) benefits.

policy capturing Compensable factor importance weights are inferred using statistical methods such as regression analysis.

policy line A pay line that reflects the organization's policy with respect to the external labor market.

portability Transferability of pension benefits for employees moving to a new organization. ERISA does not require mandatory portability of private pensions. On a voluntary basis, the employer may agree to let an employee's pension benefit transfer to an individual retirement account (IRA) or, in a reciprocating arrangement, to the new employer.

Position Analysis Questionnaire (PAQ) A structured job analysis technique that classifies job information into seven basic factors: information input, mental processes, work output, relationships with other persons, job context, other job characteristics, and general dimensions. The PAQ analyzes jobs in terms of worker-oriented data.

preferred provider organization (PPO) Health care delivery system in which there is a direct contractual relationship between and among employers, health care providers, and third-party payers. An employer is able to select providers (e.g., selected doctors) who agree to provide price discounts and submit to strict utilization controls.

Pregnancy Discrimination Act of 1978 An amendment to Title VII of the Civil Rights Act. It requires employers to extend to pregnant employees or spouses the same disability and medical benefits provided to other employees or spouses of employees.

prevailing-wage laws Legislation that provides for a government-defined prevailing wage as the minimum wage that must be paid for work done on covered government projects or purchases. In practice, these prevailing rates have been union rates paid in various geographic areas.

probationary period Period during which new employees are excluded from benefits coverage, usually until some term of employment (e.g., 3 months) is completed.

procedural justice/fairness Concept concerned with the process used to make and implement decisions about pay. It suggests that the way pay decisions are made and implemented may be as important to employees as the results of the decisions.

professional An employee who has specialized training of a scientific or intellectual nature and whose major duties do not entail the supervision of people.

profit-sharing plan A plan that focuses on profitability as the standard for group incentive. These plans typically involve one of three distributions: (1) Cash or current distribution plans provide full payment to participants soon after profits have been determined (quarterly or annually); (2) deferred plans have a portion of current profits credited to employee accounts, with cash payments made at time of retirement, disability, severance, or death; and (3) combination plans that incorporate aspects of both current and deferred options.

purchasing power The ability to buy goods and services in a certain currency, determined by exchange rates and availability of goods. Companies must determine purchasing power when allocating allowances to expatriates.

qualified deferred compensation plan A deferred compensation program that qualifies for tax exemption.

It must provide contributions or benefits for employees other than executives that are proportionate to contributions provided to executives.

quantitative job analysis (QJA) Job analysis method that relies on scaled questionnaires and inventories that produce job-related data that are documentable, can be statistically analyzed, and may be more objective than other analyses.

quoted price market Stores that label each item's price or ads that list a job's opening starting wage are examples of quoted-price markets.

range maximums The maximum values to be paid for a job grade, representing the top value the organization places on the output of the work.

range midpoint The salary midway between the minimum and maximum rates of a salary range. The midpoint rate for each range is usually set to correspond to the pay-policy line and represents the rate paid for satisfactory performance on the job.

range minimums The minimum values to be paid for a job grade, representing the minimum value the organization places on the work. Often, rates below the minimum are used for trainees.

range overlap The degree of overlap between adjoining grade ranges is determined by the differences in midpoints among ranges and the range spread. A high degree of overlap and narrow midpoint differentials indicate small differences in the value of jobs in the adjoining grades and permit promotions without much change in the rates paid. By contrast, a small degree of overlap and wide midpoint differentials allow the manager to reinforce a promotion with a large salary increase.

ranges *See* pay ranges.

rank and yank Requires managers to complete performance appraisals by ranking employees into a preset distribution of top, middle, and needs improvement categories. Often this latter category has employees who are "yanked" or terminated from the organization.

ranking format A type of performance appraisal format that requires that the rater compare employees against each other to determine the relative ordering of the group on some performance measure.

rater error training Training that enables performance appraisers to identify and suppress psychometric errors such as leniency, severity, central tendency, and halo errors when evaluating employee performance.

rating errors Errors in judgment that occur in a systematic manner when an individual observes and evaluates a person, group, or phenomenon. The most frequently described rating errors include halo, leniency, severity, and central tendency errors.

rating format A type of performance appraisal format that requires that raters evaluate employees on absolute measurement scales that indicate varying levels of performance.

recency error The opposite of first-impression error. Performance (either good or bad) at the end of the review period plays too large a role in determining an employee's rating for the entire period.

red circle rates Pay rates that are above the maximum rate for a job or pay range for a grade.

reengineering Making changes in the way work is designed to include external customer focus. Usually includes organizational delayering and job restructuring.

regression A statistical technique for relating present-pay differentials to some criterion, that is, pay rates in the external market, rates for jobs held predominantly by men, or factor weights that duplicate present rates for all jobs in the organization.

regression analysis One output from a regression analysis is the R². The R² is much like a correlation in that it tells us what percentage of the variation is accounted for by the variables we are using to predict or explain.

relational returns The nonquantifiable returns employees get from employment, such as social satisfaction, friendship, feeling of belonging, or accomplishment.

relative value of jobs The relative contribution of jobs to organizational goals, to their external market rates, or to some other agreed-upon rates.

relevant markets Those employers with which an organization competes for skills and products/services. Three factors commonly used to determine the relevant markets are the occupation or skills required, the geography (willingness to relocate and/or commute), and employers that compete in the product market.

reliability The consistency of the results obtained, that is, the extent to which any measuring procedure yields the same results on repeated trials. Reliable job information does not mean that it is accurate (valid), comprehensive, or free from bias.

rent *See* economic rent.

reopener clause A provision in an employment contract that specifies that wages, and sometimes such nonwage items as pension/benefits, will be renegotiated under certain conditions (changes in cost of living, organization, profitability, and so on).

reservation wage A theoretical minimum standard below which a job seeker will not accept an offer, no matter how attractive the other job attributes.

restricted stock plan Plan that grants stock at a reduced price with the condition that it not be sold before a specified date.

reverse incentive plan A plan where there is penalty for poor performance rather than reward for good.

reward system The composite of all organizational mechanisms and strategies used to formally acknowledge employee behaviors and performance. It includes all forms of compensation, promotions, and assignments; nonmonetary awards and recognitions; training opportunities; job design and analysis; organizational design and working conditions; the supervisor; social networks; performance standards and reward criteria; performance evaluation; and the like.

risk sharing An incentive plan in which employees' base wages are set below a specified level (e.g., 80% of the market wage) and incentive earnings are used to raise wages above the base. In good years an employee's incentive pay will more than make up for the 20 percent shortfall, giving the employee a pay premium. Because employees assume some of the risk, risk-sharing plans pay more generously than success-sharing plans in good years.

Roth IRA For employees who meet certain requirements, all earnings are tax free when withdrawn. However, no income tax deductions are allowed for contributions.

Rowan plan Individual incentive plan that provides for variable incentives as a function of a standard expressed as time period per unit of production. It is similar to the Halsey plan, but in this plan a worker's bonus increases as the time required to complete the task decreases.

Rucker plan A group cost savings plan in which cost reductions due to employee efforts are shared with the employees. It involves a somewhat more complex formula than a Scanlon plan for determining employee incentive bonuses.

salary Pay given to employees who are exempt from regulations of the Fair Labor Standards Act and hence do not receive overtime pay (e.g., managers and

professionals). Exempt pay is calculated at an annual or monthly rate rather than hourly.

salary continuation plans Benefit options that provide some form of protection for disability. Some are legally required, such as workers' compensation provisions for work-related disability and social security disability income provisions for those who qualify.

sales compensation Any form of compensation paid to sales representatives. Sales compensation formulas usually attempt to establish direct incentives for sales outcomes.

sales value of production (SVOP) An incentive metric that calculates the dollar value of goods produced and in inventory.

Sarbanes-Oxley Act Legislation passed in 2002 that prohibits executives from retaining bonuses or profits from selling company stock if they mislead the public about the financial health of the company.

say on pay Sarbanes-Oxley Act of 2002 and subsequent legislation gives shareholders the right to exercise a nonbinding vote favoring or disapproving of an executive's compensation package.

scaling Determining the intervals on a measurement instrument.

Scanlon plan A group cost-savings plan designed to lower labor costs without lowering the level of a firm's activity. Incentives are derived as the ratio between labor costs and sales value of production (SVOP).

Securities Exchange Act Legislative act passed in 1934 that created the Securities and Exchange Commission (SEC).

segmented labor supply A labor supply that comes from multiple markets. Some employees may come from different global locations, may receive different pay forms, and may have varied employment relationships.

self-determination theory Belief that people are motivated not only by extrinsic rewards like pay but also by intrinsic rewards that promote sense of autonomy, self-worth, and relatedness.

self-funding plans These plans specify that payouts only occur after the company reaches a certain profit target. Then variable payouts for individual, team, and company performance are triggered.

self-insurance compensation System in which an organization funds its own insurance claims, for either health or life insurance or workers' compensation.

seniority increases Pay increases tied to a progression pattern based on seniority. To the extent

performance improves with time on the job, this method has the rudiments of paying for performance.

severity error The opposite of leniency error. Rating someone consistently lower than is deserved.

shared choice An external competitiveness policy that offers employees substantial choice among their pay forms.

shirking behavior The propensity of employees to allow the marginal revenue product of their labor to be less than its marginal cost; to be lax.

short-term disability (STD) *See* workers' compensation.

short-term incentives Inducements offered in advance to influence future short-range (annual) results. Usually very specific performance standards are established.

sick leave Paid time when an employee is not working due to illness or injury.

simplified employee pension (SEP) A retirement income arrangement intended to markedly reduce the paperwork for regular pension plans.

single-rate pay system A compensation policy under which all employees in a given job are paid at the same rate instead of being placed in a pay grade. Generally applies to situations in which there is little room for variation in job performance, such as an assembly line.

skill analysis A systematic process to identify and collect information about the skills required to perform work in an organization.

skill-based pay system *See* pay-for-knowledge plan.

skill-based structure Pay structure that links pay to the depth or breadth of the skills, abilities, and knowledge a person acquires that are relevant to the work.

skill-based system Compensation approach that links pay to the depth and/or breadth of the skills, abilities, and knowledge a person acquires/demonstrates that are relevant to the work. Typically applies to operators, technicians, and office workers where the work is relatively specific and defined. The criterion chosen can influence employee behaviors by describing what is required to get higher pay.

skill blocks Basic units of knowledge employees must master to perform the work, satisfy customers, and achieve business objectives.

skill requirement Composite of experience, training, and ability as measured by the performance requirements of a particular job.

slippage *See* turnover effect.

sorting effect The effect that pay can have on the composition of the workforce. Different types of pay strategies may cause different types of people to apply to and stay with an organization.

special groups Employee groups for whom compensation practices diverge from typical company procedures (e.g., supervisors, middle and upper management, nonsupervisory professionals, sales, and personnel in foreign subsidiaries).

spillover effect The fact that improvements obtained in unionized firms “spill over” to nonunion firms seeking ways to lessen workers’ incentives for organizing a union.

spillover error Rating error in which the rater continues to downgrade an employee for performance errors in prior rating periods.

spot award One-time award for exceptional performance; also called a spot bonus.

standard hour plan Individual incentive plan in which rate determination is based on time period per unit of production and wages vary directly as a constant function of product level. In this context, the incentive rate in standard hour plans is set based on completion of a task in some expected time period.

standard rating scales Appraisal system characterized by (1) one or more performance standards being developed and defined for the appraiser and (2) each performance standard having a measurement scale indicating varying levels of performance on that dimension. Appraisers rate the appraisee by checking the point on the scale that best represents the appraisee’s performance level. Rating scales vary in the extent to which anchors along the scale are defined.

stock appreciation rights (SARs) Rights that permit an executive to receive all the potential capital gain of a stock incentive option (ISO) without having to purchase the stock; thus, they reduce an executive’s cash commitment. Payment is provided on demand for the difference between the stock option price and the current market price.

stock grant Issue of a share(s) of stock at no cost to the recipient which, in turn, can be sold at some agreed upon time at market rate.

stock option A right to purchase, at market price, a share(s) of stock at some future point in time for a rate agreed upon at the time the option is granted.

stock purchase plan (nonqualified) A plan that is, in effect, a management stock purchase plan. It allows

senior management or other key personnel to buy stock in the business. This plan has certain restrictions:

(1) The stockholder must be employed for a certain period of time, (2) the business has the right to buy back the stock, and (3) stockholders cannot sell the stock for a defined period.

stock purchase plan (qualified) A program under which employees buy shares in the company’s stock, with the company contributing a specific amount for each unit of employee contribution. Also, stock may be offered at a fixed price (usually below market) and paid for in full by the employees.

straight piecework system Individual incentive plan in which rate determination is based on units of production per time period; wages vary directly as a constant function of production level.

straight ranking procedure A type of performance appraisal format in which the rater compares or ranks each employee relative to each other employee.

strategy The fundamental direction of the organization. It guides the deployment of all resources, including compensation.

strategic perspective A strategic perspective focuses on those compensation choices that help the organization gain and sustain competitive advantage.

strike price Price an individual is permitted to buy a stock at by the company granting the stock.

subjective performance-based pay systems Pay approach that focuses on subjective performance standards (e.g., achieving agreed-upon objectives) derived from organizational objectives and a thorough analysis of the job.

success sharing An incentive plan (e.g., profit sharing or gain sharing) in which an employee’s base wage matches the market wage and variable pay adds on during successful years. Because base pay is not reduced in bad years, employees bear little risk.

supermarket plan *See* cafeteria (flexible) benefit plan.

supplemental unemployment benefits (SUB) plan Employer-funded plan that supplements state unemployment insurance payments to workers during temporary periods of layoffs. Largely concentrated in the automobile, steel, and related industries.

supply chain analysis As applied to work flow analysis, supply chain analysis looks at how an organization does its work: activities pursued to accomplish specific objectives for specific customers.

surplus value The difference between labor’s use and exchange values. According to Marx, under capitalism

wages are based on labor's exchange value—which is lower than its use value—and thus provide only a subsistence wage.

survey The systematic process of collecting and making judgments about the compensation paid by other employers.

tacit work Complex work (as compared to transactional, or routine, work).

tally sheet A tally sheet gives a comprehensive view on the true value of executive compensation. Add up the value of base salary, annual incentives, long-term incentives, benefits, and perks. Part of this process includes estimating the current value of stock options (using something called the Black–Scholes model), stock appreciation rights, vested and unvested pensions, and payouts upon termination.

tariff agreements In some European countries, the wage rates negotiated by employer associations and trade union federations for all wage earners for all companies in an industry group.

task (work) data Information on the elemental units of work (tasks), with emphasis on the purpose of each task, collected for job analysis. Work data describe the job in terms of actual tasks performed and their output.

tax equalization A method whereby an expatriate pays neither more nor less tax than the assumed home-country tax on base remuneration.

Taylor plan Individual incentive plan that provides for variable incentives as a function of units of production per time period. It provides two piecework rates that are established for production above and below standard, and these rates are higher and lower than the regular wage incentive level.

team incentive Group incentive restricted to team members with payout usually based on improvements in productivity, customer satisfaction, financial performance, or quality of goods and services directly attributable to the team.

third-country nationals (TCNs) Employees of a U.S. foreign subsidiary who maintain citizenship in a country other than the United States or the host country. TCNs' compensation is tied to comparative wages in the local country, the United States, or the country of citizenship.

360-degree feedback A rating method that assesses employee performance from five points of view: supervisor, peer, self, customer, and subordinate.

Title VII of the Civil Rights Act of 1964 A major piece of legislation prohibiting pay discrimination.

It is much broader in intent than the Equal Pay Act, forbidding discrimination on the basis of race, color, religion, sex, pregnancy, or national origin.

top-down approach to pay budgeting Also known as *unit-level budgeting*, an approach in which a total pay budget for the organization (or unit) is determined and allocated “down” to individual employees during the plan year. There are many kinds of unit-level budgeting. They differ in the type of financial index used as a control measure. Controlling to a planned level rise and controlling to a planned compa-ratio are two typical approaches.

topping out Situation in which employees in a skill-based compensation plan attain the top pay rate in a job category by accumulating and/or becoming certified for the top-paid skill block(s).

total cash Base wage plus cash bonus; does not include benefits or stock options.

total compensation The complete pay package for employees, including all forms of money, bonuses, benefits, services, and stock.

total returns All returns to an employee, including financial compensation, benefits, opportunities for social interaction, security, status and recognition, work variety, appropriate workload, importance of work, authority/control/autonomy, advancement opportunities, feedback, hazard-free working conditions, and opportunities for personal and professional development. An effective compensation system will utilize many of these returns.

total rewards *See* total returns.

tournament theory The notion that larger differences in pay are more motivating than smaller differences. Like prize awards in a golf tournament, pay increases should get successively greater as one moves up the job hierarchy. Differences between the top job and the second-highest job should be the largest.

traditional time-off (TTO) plan Paid vacations, holidays (or pay if worked), sick leave, and personal leave, tracked separately.

transactional work Routine work.

turnover effect The downward pressure on average wage that results from the replacement of high-wage-earning employees with workers earning a lower wage.

two-tier pay plans Wage structures that differentiate pay for the same jobs based on hiring date. A contract is negotiated that specifies that employees hired after a stated day will receive lower wages than their higher-seniority peers working on the same or similar jobs.

underwater stock option A stock option with a market price lower than the original offer price. Fairly

common during a market downturn, these options are of no value to someone who has received them as an incentive.

unemployment benefits *See* unemployment insurance.

unemployment compensation *See* unemployment insurance.

unemployment insurance (UI) State-administered program that provides financial security for workers during periods of joblessness.

unequal treatment *See* disparate treatment.

use value The value or price ascribed to the use or consumption of labor in the production of goods or services.

U.S. expatriates (USEs) American citizens working for a U.S. subsidiary in a foreign country. Main compensation concerns are to “keep the expatriates whole” relative to their U.S.-based counterparts and to provide expatriates with an incentive wage for accepting the foreign assignment.

utility theory The analysis of utility, the dollar value created by increasing revenues and/or decreasing costs by changing one or more human resource practices. It has most typically been used to analyze the payoff to making more valid employee hiring/selection decisions.

valence The amount of positive or negative value placed on specific outcomes by an individual.

validity The accuracy of the results obtained; that is, the extent to which any measuring device measures what it purports to measure.

value The worth of the work; its relative contribution to organization objectives.

valuation discrimination Discrimination that focuses on the pay women and minorities receive for the work they perform. Discrimination occurs when members of these groups are paid less than white males for performing substantially equal work. This definition of pay discrimination is based on the standard of “equal pay for equal work.” Many believe that this definition is limited and that valuation discrimination can also occur when men and women hold entirely different jobs (in content or results) that are of comparable worth to the employer. Existing federal laws do not support the “equal pay for work of comparable worth” standard.

variable pay Pay tied to productivity or some measure that can vary with the firm’s profitability.

vesting A benefit plan provision that guarantees that participants will, after meeting certain requirements,

retain a right to the benefits they have accrued, or some portion of them, even if employment under their plan terminates before retirement.

wage Pay given to employees who are covered by overtime and reporting provisions of the Fair Labor Standards Act. Nonexempts usually have their pay calculated at an hourly rate rather than a monthly or annual rate.

wage adjustment provisions Clauses in a multilayer union contract that specify the types of wage adjustments that have to be implemented during the life of the contract. These adjustments might be specified in three major ways: (1) deferred wage increases—negotiated at the time of contract negotiation, with the time and amount specified in the contract; (2) cost-of-living adjustments (COLAs) or escalator clauses; and (3) reopener clauses.

wage and price controls Government regulations that aim at maintaining low inflation and low levels of unemployment. They frequently focus on “cost-push” inflation, limiting the size of pay raises and the rate of increases in prices charged for goods and services. Used for limited time periods only.

wage survey *See* pay (wage) survey.

Walsh-Healey Public Contracts Act of 1936 A federal law requiring certain employers holding federal contracts for the manufacture or provision of materials, supplies, and equipment to pay industry prevailing-wage rates.

Worker Economic Opportunity Act Law passed in 2000 that provides that income from most stock plans need not be included in calculating overtime pay.

work flow The process by which goods and services are delivered to the customer.

work/life balance benefits Benefits that increase the perception that the company cares about the employee as a whole person (e.g., fitness centers, eldercare programs).

zones Ranges of pay used as controls or guidelines within pay bands that can keep the system more structurally intact. Maximums, midpoints, and minimums provide guides to appropriate pay for certain levels of work. Without zones employees may float to the maximum pay, which for many jobs in the band is higher than market value.