

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Which of the following is a step in the formulation of the total compensation strategy that deals with employee or union needs? 1) _____
- A) implementing strategy
 - B) mapping a total compensation strategy
 - C) reassessing the fit
 - D) implementing cultural and regulatory changes
 - E) assessing total compensation implications

Answer: E

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

- 2) Internal alignment suggests that: 2) _____
- A) both smaller and larger pay differences among jobs inside an organization can affect results.
 - B) paying higher than the average wage offered by competitors can affect results.
 - C) rather than focusing on only one dimension of the pay strategy, such as pay for performance or internal pay differences, all dimensions need to be considered together.
 - D) performance-based pay can affect results.
 - E) embedding compensation strategy within the broader HR strategy affects results.

Answer: A

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

- 3) A pay strategy is a source of competitive advantage: 3) _____
- A) if it rarely aligns.
 - B) if it seldom provides value.
 - C) if it offers stock options.
 - D) if it differentiates.
 - E) if it defers taxes.

Answer: D

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

- 4) A supporting compensation approach for an innovator: 4) _____
- A) stresses delighting customers and bases employee pay on how well they do this.
 - B) stresses doing more with less by minimizing costs and specifying in greater detail exactly how jobs should be performed.
 - C) focuses on system control and work specifications.
 - D) places less emphasis on evaluating skills and jobs and more emphasis on incentives designed to encourage innovations.
 - E) seldom stresses on innovations or risk taking.

Answer: D

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

- 5) According to the pay model, the strategic compensation decisions regarding management involve: 5) _____
- A) how total compensation should be positioned against competitors.
 - B) how compensation should support the business strategy and be adaptive to the cultural and regulatory pressures in a global environment.
 - C) how open and transparent the pay decisions should be to all employees.
 - D) how the different types and levels of skills and work should be paid within the organization.
 - E) how pay increases should be based.

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

- 6) According to the pay model, the strategic compensation decisions regarding external competitiveness involve: 6) _____
- A) how total compensation should be positioned against competitors.
 - B) how open and transparent the pay decisions should be to all employees.
 - C) how compensation should support the business strategy and be adaptive to the cultural and regulatory pressures in a global environment.
 - D) how the different types and levels of skills and work should be paid within the organization.
 - E) how pay increases should be based.

Answer: A

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

7) Mapping a total compensation strategy includes setting objectives and specifying policies on _____. 7) _____

- A) HR systems
- B) contributions
- C) employee/union needs
- D) core culture/values
- E) social and political context

Answer: B

Explanation: A)
B)
C)
D)
E)

8) Managing the links between the compensation strategy and the pay system as well as people's perceptions and behaviours is vital to implementing a(n): 8) _____

- A) association perspective.
- B) pay strategy.
- C) organizational hierarchy.
- D) planned perception.
- E) strategic alliance.

Answer: B

Explanation: A)
B)
C)
D)
E)

9) Which of the following is the first step in the development of the total compensation strategy? 9) _____

- A) reassessing the fit
- B) realigning as strategy changes
- C) assessing total compensation implications
- D) mapping a total compensation strategy
- E) implementing strategy

Answer: C

Explanation: A)
B)
C)
D)
E)

- 10) According to the steps involved in formulating a total compensation strategy, which of the following is the step that follows the assessment of total compensation implications? 10) _____
- A) implementing strategy
 - B) mapping a total compensation strategy
 - C) implementing cultural and regulatory changes
 - D) reassessing the fit
 - E) realigning as conditions change

Answer: B

Explanation: A)
B)
C)
D)
E)

- 11) Which of the following organizational practices assumes that paying higher than the average paid by competitors can affect results? 11) _____
- A) employee contributions
 - B) internal alignment
 - C) managing compensation
 - D) compensation strategy
 - E) external competitiveness

Answer: E

Explanation: A)
B)
C)
D)
E)

- 12) Which of the following organizational practices assumes that rather than focusing on only one dimension of the pay strategy, such as pay for performance or internal pay differences, all dimensions need to be considered together? 12) _____
- A) internal alignment
 - B) external competitiveness
 - C) managing compensation
 - D) compensation strategy
 - E) employee contributions

Answer: C

Explanation: A)
B)
C)
D)
E)

- 13) A focus on compensation decisions that help the organization gain and sustain competitive advantage is known as _____. 13) _____
- A) strategic perspective
 - B) strategic alliance
 - C) association perspective
 - D) competitive heterogeneity
 - E) planned perception

Answer: A

Explanation: A)
B)
C)
D)
E)

- 14) According to the pay model, the strategic compensation decisions regarding objectives involve: 14) _____
- A) how total compensation should be positioned against competitors.
 - B) how open and transparent the pay decisions should be to all employees.
 - C) how compensation should support the business strategy and be adaptive to the cultural and regulatory pressures in a global environment.
 - D) how pay increases should be based.
 - E) how the different types and levels of skills and work should be paid within the organization.

Answer: C

Explanation: A)
B)
C)
D)
E)

- 15) Which of the following is a step in the development of the total compensation strategy that involves the choosing of techniques to fit the strategy? 15) _____
- A) assessing total compensation implications
 - B) implementing strategy
 - C) implementing cultural and regulatory changes
 - D) reassessing the fit
 - E) mapping a total compensation strategy

Answer: B

Explanation: A)
B)
C)
D)
E)

- 16) Which of the following is a step in the development of the total compensation strategy that deals with competitive dynamics? 16) _____
- A) reassessing the fit
 - B) implementing strategy
 - C) mapping a total compensation strategy
 - D) assessing total compensation implications
 - E) implementing cultural and regulatory progress

Answer: D

Explanation: A)
B)
C)
D)
E)

- 17) Which of the following is the final step in the development of the total compensation strategy? 17) _____
- A) implementing strategy
 - B) assessing total compensation implications
 - C) reassessing the fit
 - D) mapping a total compensation strategy
 - E) implementing cultural and regulatory changes

Answer: C

Explanation: A)
B)
C)
D)
E)

- 18) A customer-focused business strategy: 18) _____
- A) stresses new products and short response times to market trends.
 - B) places less emphasis on evaluating skills and jobs and more emphasis on incentives designed to encourage innovations.
 - C) focuses on business practice or process that results in better performance than one's competitors.
 - D) stresses doing more with less by minimizing costs, encouraging productivity increases, and specifying in greater detail exactly how jobs should be performed.
 - E) stresses delighting customers and bases employee pay on how well they do this.

Answer: E

Explanation: A)
B)
C)
D)
E)

19) Which of the following is a step in the formulation of the total compensation strategy that deals with setting objectives and specifying policies on alignment, competitiveness, contributions, and management? 19) _____

- A) deciding on a total compensation strategy
- B) implementing cultural and regulatory changes
- C) reassessing the fit
- D) assessing total compensation implications
- E) implementing strategy

Answer: A

Explanation: A)
B)
C)
D)
E)

20) Which of the following pay strategies is a source of competitive advantage? 20) _____

- A) a pay strategy that adds value and is difficult for employers to imitate
- B) a pay strategy that ignores individual attitudes and preferences
- C) a pay strategy that emphasizes on work/life programs over cash compensation and giving only limited bonuses and no stock awards
- D) a pay strategy that specifies low base pay and high job security
- E) a pay strategy that overemphasizes on outstanding employee performance and commitment

Answer: A

Explanation: A)
B)
C)
D)
E)

21) A business practice or process that results in better performance than one's competitors is known as _____. 21) _____

- A) association perspective
- B) strategic alliance
- C) planned perception
- D) strategic perspective
- E) competitive advantage

Answer: E

Explanation: A)
B)
C)
D)
E)

- 22) According to the steps involved in the formulation of a total compensation strategy, which of the following is the next step after deciding on a total compensation strategy? 22) _____
- A) realigning as conditions change
 - B) realigning as strategy changes
 - C) reassessing the fit
 - D) assessing total compensation implications
 - E) implementing strategy

Answer: E

Explanation: A)
B)
C)
D)
E)

- 23) Periodic reassessment of a compensation strategy's fit to changing conditions is needed to: 23) _____
- A) design work so that employees have opportunities to work independently without collaboration with others.
 - B) defer taxes by putting pay into retirement funds.
 - C) set objectives on alignment, competitiveness, contributions, and management.
 - D) continuously learn, adapt, and improve.
 - E) specify the four policies on alignment, competitiveness, contributions, and management.

Answer: D

Explanation: A)
B)
C)
D)
E)

- 24) Which of the following statements is true about assessing the total compensation implications? 24) _____
- A) Pay can neither play a supporting role, as in the high performance approach, nor can it take the lead and be a catalyst for change.
 - B) A pay system reflects the values that guide an employer's behaviour and underlie its treatment of employees.
 - C) A highly centralized and confidential pay system controlled by a few people in a corporate unit will support a highly decentralized, flexible, open organization.
 - D) The pay system seldom mirrors a company's image and reputation.
 - E) Internationally, the role of unions in pay determination seldom varies.

Answer: B

Explanation: A)
B)
C)
D)
E)

- 25) Personal satisfaction in work accomplished, security, advancement opportunity, and means to share in the company success are fostered by a company's _____. 25) _____
- A) competitive dynamics
 - B) core culture and values
 - C) patronage concentration
 - D) social and political context
 - E) competitive heterogeneity

Answer: B

Explanation: A)
B)
C)
D)
E)

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 26) Pay systems mirror a company's image and reputation. 26) _____

Answer: True False

Explanation:

- 27) A compensation strategy emerges from the pay decisions that an organization makes. 27) _____

Answer: True False

Explanation:

- 28) The underlying premise of the support business strategy is that the greater the alignment between the organization and the compensation system, the more effective the organization. 28) _____

Answer: True False

Explanation:

- 29) All organizations that pay people have a written compensation strategy. 29) _____

Answer: True False

Explanation:

- 30) Government relations to influence laws and regulations are never a part of compensation strategies. 30) _____

Answer: True False

Explanation:

- 31) Of the three tests of competitive advantage—align, differentiate, add value—align is the most difficult. 31) _____

Answer: True False

Explanation:

- 32) Pay strategies need to be adapted to the nature of the union-management relationship. 32) _____

Answer: True False

Explanation:

- 33) An unstated compensation strategy is inferred from an organization's compensation practices. 33) _____
 Answer: True False
 Explanation:
- 34) Trial and error play a major role in developing a compensation strategy. 34) _____
 Answer: True False
 Explanation:
- 35) Union interests are part of the environmental pressures that help shape compensation strategies. 35) _____
 Answer: True False
 Explanation:
- 36) Taking a strategic perspective requires a focus on compensation decisions that helps the organization gain and sustain competitive advantage. 36) _____
 Answer: True False
 Explanation:
- 37) The pay strategy is not influenced by how well it fits with other HR systems in the organization. 37) _____
 Answer: True False
 Explanation:
- 38) When business strategies change, pay systems should remain the same. 38) _____
 Answer: True False
 Explanation:
- 39) Managing total compensation strategically means fitting the compensation system to the business and environmental conditions. 39) _____
 Answer: True False
 Explanation:

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

40) What is meant by a strategic perspective?

Answer: Strategic perspective refers to a focus on compensation decisions that help the organization gain and sustain competitive advantage.

41) What does the "best fit" perspective on compensation suggest?

Answer: The "best fit" perspective on compensation suggests that compensation be aligned, or fit, with the specific business strategy adopted by the organization, given its environment, in order to maximize competitive advantage. The "best practices" perspective suggests there is one set of best pay practices that can be applied universally across situations and strategies, attracting superior employees who then create a winning strategy.

42) Describe the last step of developing a total compensation strategy.

Answer: The fourth step, reassess and realign, closes the loop of the total compensation strategy. This step recognizes that the compensation strategy must change to fit changing conditions. Thus, periodic reassessment of the fit is needed to continuously learn, adapt, and improve. Managing the links between the compensation strategy (grand policy decisions) and the pay system (procedures for paying people) as well as to people's perceptions and behaviours is vital to implementing a pay strategy.

43) What three tests determine whether a compensation strategy is providing a competitive advantage to the organization?

Answer: Three tests determine whether a pay strategy is a source of competitive advantage. They are:

- (1) Does the pay strategy align?
- (2) Does the pay strategy differentiate?
- (3) Does the pay strategy add value?

44) List the aspects of alignment of the pay strategy.

Answer: Alignment of the pay strategy includes three aspects: (1) alignment with the business strategy, (2) alignment externally with the economic and socio-political conditions, and (3) alignment internally with the overall HR system.

45) What is meant by context in the process of formulating a total compensation strategy?

Answer: Context refers to a wide range of factors, including legal and regulatory requirements, cultural differences, changing workforce demographics, expectations, and so on. Governments are major stakeholders in determining compensation. Hence, government relations to influence laws and regulations may also be part of compensation strategies. From a strategic perspective, managers of compensation may try to shape the socio-political environment as well as be shaped by it.

46) Describe the process of developing a total compensation strategy.

Answer: The four steps to develop a total compensation strategy are: (1) assess total compensation implications, including competitive dynamics, core culture/values, social and political context, employee/union needs, and the role of pay in overall HR strategy; (2) create a total compensation strategy from the five decisions in the pay model that include setting objectives and specifying the four policies on alignment, competitiveness, contributions, and management; (3) implement the compensation strategy; and (4) reassess and realign the strategy.

47) Define competitive advantage.

Answer: Competitive advantage refers to a business practice or process that results in better performance than one's competitors.

48) How do employee preferences influence the formulation of an organization's total compensation strategy?

Answer: The simple fact that employees differ is easily overlooked in formulating a compensation strategy. Individual employees join the organization, make investment decisions, design new products, assemble components, and judge the quality of results. Individual employees receive the pay. A major limitation of contemporary pay systems is the degree to which individual attitudes and preferences are ignored. Offering more choice is one approach. Older, highly paid workers may wish to defer taxes by putting their pay into retirement funds, whereas younger employees may have high cash needs to buy a house, support a family, or finance an education. Dual-career couples who are over insured medically may prefer to use more of their combined pay for child care, automobile insurance, financial counselling, or other benefits such as flexible schedules. Employees who have young children or dependent parents may desire dependent care coverage. However, preferences are notoriously unstable, changing according to the economic and personal conditions people face.

49) Describe the relationship between virtuous and vicious circles.

Answer: Some studies suggest that performance-based pay works best when the organization is performing well. An organization with increasing profits or market share is able to pay larger incentives in the form of bonuses and stock awards which is reflected in employee attitudes and work behaviours, which in turn improves their performance and ultimately results in better organizational performance. The circle gains upward momentum. Contrarily when organization performance declines, say in a recessionary period, performance-based pay plans do not pay off; there are no bonuses, and the value of stock declines—with potentially negative effects on organizational performance. Declining organizational performance increases the risks facing employees—risks of demotions, wage cuts, and even layoffs. Declining employee attitudes may speed the downward spiral, creating a vicious circle.

Answer Key
Testname: C2

- 1) E
- 2) A
- 3) D
- 4) D
- 5) C
- 6) A
- 7) B
- 8) B
- 9) C
- 10) B
- 11) E
- 12) C
- 13) A
- 14) C
- 15) B
- 16) D
- 17) C
- 18) E
- 19) A
- 20) A
- 21) E
- 22) E
- 23) D
- 24) B
- 25) B
- 26) TRUE
- 27) TRUE
- 28) TRUE
- 29) FALSE
- 30) FALSE
- 31) FALSE
- 32) TRUE
- 33) TRUE
- 34) TRUE
- 35) TRUE
- 36) TRUE
- 37) FALSE
- 38) FALSE
- 39) TRUE
- 40) Strategic perspective refers to a focus on compensation decisions that help the organization gain and sustain competitive advantage.
- 41) The "best fit" perspective on compensation suggests that compensation be aligned, or fit, with the specific business strategy adopted by the organization, given its environment, in order to maximize competitive advantage. The "best practices" perspective suggests there is one set of best pay practices that can be applied universally across situations and strategies, attracting superior employees who then create a winning strategy.

- 42) The fourth step, reassess and realign, closes the loop of the total compensation strategy. This step recognizes that the compensation strategy must change to fit changing conditions. Thus, periodic reassessment of the fit is needed to continuously learn, adapt, and improve. Managing the links between the compensation strategy (grand policy decisions) and the pay system (procedures for paying people) as well as to people's perceptions and behaviours is vital to implementing a pay strategy.
- 43) Three tests determine whether a pay strategy is a source of competitive advantage. They are:
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 - (2) Does the pay strategy differentiate?
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Governments are major stakeholders in determining compensation. Hence, government relations to influence laws and regulations may also be part of compensation strategies. From a strategic perspective, managers of compensation may try to shape the socio-political environment as well as be shaped by it.
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- 47) Competitive advantage refers to a business practice or process that results in better performance than one's competitors.
- 48) The simple fact that employees differ is easily overlooked in formulating a compensation strategy. Individual employees join the organization, make investment decisions, design new products, assemble components, and judge the quality of results. Individual employees receive the pay. A major limitation of contemporary pay systems is the degree to which individual attitudes and preferences are ignored. Offering more choice is one approach. Older, highly paid workers may wish to defer taxes by putting their pay into retirement funds, whereas younger employees may have high cash needs to buy a house, support a family, or finance an education. Dual-career couples who are over insured medically may prefer to use more of their combined pay for child care, automobile insurance, financial counselling, or other benefits such as flexible schedules. Employees who have young children or dependent parents may desire dependent care coverage. However, preferences are notoriously unstable, changing according to the economic and personal conditions people face.

- 49) Some studies suggest that performance-based pay works best when the organization is performing well. An organization with increasing profits or market share is able to pay larger incentives in the form of bonuses and stock awards which is reflected in employee attitudes and work behaviours, which in turn improves their performance and ultimately results in better organizational performance. The circle gains upward momentum. Contrarily when organization performance declines, say in a recessionary period, performance-based pay plans do not pay off; there are no bonuses, and the value of stock declines—with potentially negative effects on organizational performance. Declining organizational performance increases the risks facing employees—risks of demotions, wage cuts, and even layoffs. Declining employee attitudes may speed the downward spiral, creating a vicious circle.