Strategic Compensation in Canada (Canadian) 6th edition Long Solutions Manual

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CHAPTER 2
A Strategic Framework for Compensation

ESSENTIAL OUTCOMES

If nothing else, my students should learn:

1. That, in order to design an effective compensation strategy, it is essential to first understand the strategic context in which a firm operates, particularly the managerial strategy in place.

2. How to use the strategic framework for compensation as a tool to help identify the strategic context for compensation, and the implications for designing the compensation strategy that best fits a particular organization.

LEARNING OUTCOMES

After completing this chapter, students should be able to:

- Understand the concept of "fit" and explain why a compensation system that is a success in on firm can be a failure in another.

- Explain how the strategic framework for compensation can be used as a tool for designing effective reward and compensation systems.

- Describe the main elements in the strategic compensation framework, and explain how they relate to one another.

- Describe the three main managerial strategies that organizations can adopt, and explain the implications for the most effective reward and compensation system.

- Describe the main determinants of managerial strategy, and explain how they can be used to select the most appropriate managerial strategy.

- Analyze any organization to determine the most appropriate managerial strategy for that organization to adopt.

- Discuss how conditions in North America changed during the twentieth century, and explain how this has affected today's managerial and compensation strategies.

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KEY CONCEPTS

Key concepts covered in Chapter 2 include the concept of "fit" as it relates to an organizational reward system, organizations as systems, the strategic framework for compensation (structural and contextual variables), and the three main types of managerial strategy. Students need to understand the implications of each managerial strategy for organizational structure, including compensation structure. It is important for students to understand that none of the managerial strategies is inherently superior to the others, but that some managerial strategies will better fit a given organization than other managerial strategies, depending on the contextual variables related to environment, corporate strategy, technology, organizational size, and the nature of work.

STUDENT MOTIVATION

Why should students care about the material in this chapter?

- The previous chapter emphasized that the success of a compensation system depends on the *fit* between the compensation system and the organization. Nevertheless, how do we know if we will have a good fit? The strategic framework provides a tool for helping to predict this, and for identifying the compensation system that will be the best fit with the organization and its business strategy.

- As the business environment grows ever more competitive, being able to analyze an organization and come up with the compensation strategy and system that will be the best fit with the organization and its business strategy is a skill that will be highly valued by employers.

- Because it is such a fundamental building block in designing an effective compensation strategy and system, an inability to effectively use the strategic framework will make it virtually impossible for the student to achieve the learning objectives of this course or to become a successful compensation professional.

- A strong understanding of this chapter will help students strengthen their understanding of other compensation areas.

BARRIERS TO LEARNING

- Some students may be so intimidated by the seeming complexity of the strategic framework that they give up too easily or do not even attempt to master it. It is crucial for the instructor to explain the framework piece by piece—while extensively using the strategies for engagement described below—and to emphasize its importance as a crucial building block for achieving success in this course. Students need to come to see the strategic framework as an essential and helpful tool in solving compensation problems.

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- Students often confuse the role of the structural variables (used for determining the managerial strategy actually in use) and the contextual variables (used for determining what is the most appropriate managerial strategy to adopt). The instructor will need to continually emphasize this distinction through both lecture and application activities. Repeated use over time of a clicker question testing student grasp of this distinction will be very useful in gauging progress toward this understanding.

ENGAGEMENT STRATEGIES

In the opening vignette for Chapter 2 (A Tale of Two Firms), the text provides two diverse examples to illustrate the concept of fit. Divide students into pairs, and ask them to decide which compensation system is likely the most effective, in terms of the criteria for success listed in *Compensation Notebook 1.1*. Use clickers to ask each pair to indicate their choice. Ask them to justify their selection of LS Electro-Galvanizing or Koch Foods Chicken Processors. Use the board to tally the advantages and disadvantages of the two different compensation systems. Use the concept of fit to note that both systems are effective, but tell them to think about what would happen if the two firms traded their compensation systems? (Of course, they would both be deader than the Koch chickens!)

Follow up on this example by asking students to work out the key differences in contextual variables between the two firms. They should hit on points relating to the firms' environment, business strategy, technology, size, and work force. Carry on to ask the broader question, "If fit between the compensation system and key characteristics of the firm is essential, then what exactly are these key characteristics, and exactly how do they link to compensation?" Note that the purpose of this chapter is to provide a strategic framework as a tool for answering this question.

Next, reinforce the concepts of business strategy and organizational structure. Explain and emphasize that for the organizational system to be effective, these two concepts must fit with other key variables.

Because it can look intimidating, walk students through the strategic framework for compensation (Figure 2.1), emphasizing that it will be become an extremely useful tool once students understand it and are able to apply it. Explain the various parts of it first, and then explain how the parts fit together.

This sets the stage for introducing managerial strategies and eventually showing how they relate to reward systems. The key unifying role of managerial assumptions in establishing managerial strategies needs to be emphasized, pointing out that even though many managers may never have heard of the three managerial strategies, they will nonetheless evolve toward one, depending on their assumptions about people and human nature. Use the exercises *"Design Your Own Company"* (a supplementary exercise included under "additional resources") to help students see the impact of managerial assumptions on the way that firms are structured, and to help them understand the structural alternatives for the various managerial strategies.

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Once the strategies have been introduced, use the examples of Foxconn (*Compensation Today 2.1*), Eastman Kodak (*Compensation Today 2.2*) and WestJet (*Compensation Today 2.3*) to illustrate how the structural variables (shown in *Compensation Notebook 2.1*) differ across a classical, human relations, and high-involvement firm. Note how the structural variables need to be internally consistent for a successful organization, and how structural variables interrelate. These examples also give students a feel for what organizations utilizing the three different managerial strategies feel like on the ground.

To reinforce understanding of the three managerial strategies, and to understand how they can be used to help find solutions to organizational problems, *Case Question 1* ("Achtymichuk Machine Works") provokes excellent insight and material for discussion. Organize the students into pairs to analyze this case and report their findings.

Next, use the exercise *"Classify Your Firm"* (a supplementary exercise included under "additional resources") to provide students with practice in applying the structural variables to determine which managerial strategy is in place at a firm for which they have been employed. As stated in the exercise preamble, tabulating and feeding back the results can really add to the flavour of what these different managerial strategies feel like in practice.

This can also lead to a very fruitful discussion of why these different firms use different managerial strategies, and whether the managerial strategy fits with the contextual variables for each organization. Some will be a good fit—and should therefore be a successful firm—and some will not be, and the firm should therefore be less successful. It won't always work out exactly this way (i.e., some firms can be successful despite a mismatch between the managerial strategy and the contextual variables if they are monopolies, for instance), but overall this will provide good fodder for discussion, especially since these are firms students have had personal experience with.

To build further on the personal experience of students, end of chapter *Exercises 1 and 2* work together very well to reinforce application of the entire strategic framework.

For further reinforcement of the strategic framework, *Case Question 2* ("The Fit Stop") provides practice in applying the contextual variables to determine the most appropriate managerial strategy for a firm to use, and illustrates links to the assumptions of the founder. *Case Question 3* ("Multi-Products Corporation") gives additional practice in the application of the contextual variables, and provides students with the chance to carry through to determine what would be the most appropriate compensation strategy for this firm.

For the final section of the chapter, "Trends in Managerial and Compensation Strategies," use *Discussion Question 3* to develop the link between changes in the Canadian socio-economic and business environment to changes in managerial strategy and changes in compensation strategy. Ask students if they have had any personal experiences with these trends.

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ASSESSMENT TOOLS

To assess student learning against the chapter learning outcomes, before the end of the lecture, students may be asked to write short answers to questions such as the following:

- ✓ What was the most important thing you learned during this class?
- ✓ What important unanswered questions do you have?

Students can compare their questions and answers with a classmate or you can invite questions/responses from the large group.

REFLECTIONS ON TEACHING

The key to providing the best possible learning experience for students is continually assessing the extent to which students are mastering the course material, and reflecting on ways to promote the learning experience. This can be aided by instructors asking themselves the following questions after each chapter:

- ✓ Which learning exercises/pedagogical activities really worked?
- ✓ Which didn't work as well as I had hoped?
- ✓ Were students engaged with the material?
- ✓ Were students focused on key concepts, or were they distracted by tangents?
- ✓ Did my assessments suggest that students understood the concepts?
- ✓ Were my students able to relate and apply the concepts effectively?
- ✓ What should I do differently next time?
- ✓ How can I best gather student feedback?

ADDITIONAL RESOURCES

Chapter Summary

Chapter 2 presents the first of two conceptual tools that underpin the effective design of compensation strategy. The purpose of this chapter is to follow up on the concept of strategic fit briefly introduced in Chapter 1. If fit between the compensation system and key characteristics of the firm is essential, then what exactly are these key characteristics, and how exactly do they link to compensation?

The strategic framework presented in Chapter 2 is intended to answer these questions, by providing a conceptual tool for linking compensation strategy to the managerial strategy used by the firm, as well as to the corporate strategy and other key contextual variables. The key idea for students to take away from Chapter 2 is the interdependence between the compensation system,

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the other structural variables, the managerial strategy, and the contextual variables. A related insight is that if any of these characteristics change, changes to other characteristics, including the compensation system, may be needed.

Students also need to understand that just because the contextual variables seem to call for a particular managerial strategy, this is no guarantee that the firm will have actually adopted that managerial strategy. To know which managerial strategy is actually in place, if any, they need to examine the structural variables. It may well be that a firm has no definite managerial strategy—either explicit or implicit—in place, which then makes it impossible to systematically identify the most appropriate compensation system for that firm. Ideally, before the compensation system is redesigned, this organizational issue should be ironed out.

Suggested Answers to Discussion Questions

1. Students need to focus on the concept of "fit" and the importance of an organizations strategy. As with any process (e.g., leadership values, learning and development, performance management, etc.) the focus on the organizational goals or its strategy is what will often determine the needs both short and long term. Each organization will often have its own unique organizational structure (i.e., what is needed to generate the behaviours necessary to carry out the organization's strategy). So how well a compensation or reward works in an organization will depend on how it "fits" the organization's context and its system as a whole. With this in mind, it is less likely that a successful compensation system can be a "one size fits all."

2. Refer to *Compensation Notebook 2.1.* Recommended reward systems are described in the table.

3. Since the late 20th century Canadian compensation systems are moving toward more complicated pay systems. Organizations moved toward indirect pay thus making extrinsic reward more complex. More benefits were added to increase employee security and well being (note: the Kodak example). There has been a major increase in the adoption of pay-for-performance, group or team-based incentive systems and some companies have looked at pay-for-knowledge systems in place of traditional job-based pay systems. Flexible benefit plans have become more popular. More companies are moving away from defined benefit pension plans (i.e., guaranteeing specific payout amounts) and toward defined contribution plans (i.e., where there are no such guarantees). There is also an increase in the use of part-time, temporary and contract workers. They are often seen as cheaper to employ but can also serve as a buffer against demand fluctuations in global economic climate that is constantly changing.

Notes for Exercises

1. The purpose of this exercise is to give students a better understanding of the contextual variables and their purpose by applying them to organizations with which students have had personal experience, and, in so doing, reinforce their understanding of how to assess the type

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of managerial strategy practised by a firm, and their understanding of the linkages between managerial strategy and reward structure.

Assign this exercise to the class to reflect on individually before breaking the class into small groups for further discussion. Have the groups identify the organizations they are using as their examples and list them on a flip chart or board, along with their responses to each of the questions in the exercise. Depending on the size of the class, it may be necessary for each group to select just one organizational example to share with the class. Using the slide of *Compensation Notebook 2.2*, engage the groups in discussion of the relationships between the contextual variables and the actual managerial strategies that seem to be in use. Tie in the question of whether the reward system fits the managerial strategy.

2. The purpose of this exercise is to take Exercise 1 another step farther, by asking the students to reflect on whether the actual performance results match what theory would predict, and if not, why not. Use the same groups as in Exercise 1. If some of the predicted linkages don't match up, discuss some of the possible reasons why this may have occurred. Possible reasons may include misclassification on the part of the students, or a misunderstanding of the actual performance level of the firm. Point out that most firms do not fall neatly into boxes, and that many factors affect firm performance, so that the theory may not necessarily "work" in every case.

Notes for Case Questions

1. Achtymichuk Machine Works. The purpose of this case question is to help students see how the three managerial strategies can translate into specific managerial and organizational actions, to see how they can be used to generate ideas for solving problems, and to see how the implications for compensation are very different depending on the managerial strategy being pursued.

   The classical consultant would see this as a problem of structure, job design, training, and compensation. First, she would study the jobs, to see how they could be broken down into smaller fragments that would make training and learning, as well as supervision, easier. She would create specialist jobs, such as cleaning all washrooms, cleaning all hallways, cleaning around all of a certain type of machine. Each job would be studied to find the most efficient equipment, cleansers, and procedures. Workers would then be trained in these methods, and monitored to be sure they were using them. To provide motivation, some type of piece rate system might be implemented, where cleaners get paid for each toilet cleaned, each machine area cleaned, and the like. In order to supervise and control all this, a specialized cleaning department would be created, with all cleaners reporting to a single supervisor expert in all aspects of the necessary cleaning tasks.

   The human relations consultant would see this as a job satisfaction problem. If workers received higher satisfaction from their job and workplace, then they would be more likely to stay with the firm after they had learned their jobs. He would note that workers' social needs are not being satisfied, and neither are related needs for esteem and recognition by peers. He would create a separate cleaning department to give the cleaners a sense of identity and

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create opportunities for the cleaners to socialize at breaks. Another purpose of having a separate cleaning department would be to remove the cleaners from the direct supervision of the department supervisors, who would look down on the cleaners, and not provide them with any social support. He would also change the compensation system so that pay would go up with seniority, and provide benefits, such as pension plans, to encourage retention.

Finally, the high-involvement consultant would see this mainly as a problem of insufficient intrinsic rewards, and attempt to redesign jobs to make them more interesting. Workers would be given some say over the cleaning products and methods to be used. Cleaners might be organized in self-managing work teams, in which they would make decisions about which cleaners would clean what. To give them some sense of being on a team, and to give them more independence, a cleaning department would be created, headed by a supervisor with a participative leadership style. Cleaners would be put on salary, and also some type of group-based pay plan to tie their goals to those of the firm, and probably organizational performance pay as well, depending on whether this is offered to other employees in the firm.

Which solution is the best? It depends on the managerial strategy being practised by the firm. If classical is being practised, the classical method may work best; if human relations is being practised, then the human relations suggestions will work best; and if high-involvement is being practised, then the high involvement ideas would be most suitable. One thing that I point out to the students is that any of the three would likely be an improvement over what is being done now. I also point out that there are some commonalities in the suggestions of the three consultants—the creation of a cleaning department with its own supervisor—although the reasons for this suggestion are very different in each case.

2. The Fit Stop. The purpose of this case question is to give students a better understanding of the contextual variables and their purpose by giving them an opportunity to apply the template for selecting the most appropriate managerial strategy (*Compensation Notebook 2.2*). (Note: This is a recurring case and students can do further work with this case later in the book. See Chapter 4, Case Question 1; Chapter 5, Case Question 3; Chapter 6, Case Question 1; Chapter 11, Case Question 2; Chapter 12, Case Question 1; and Chapter 13, Case Question.)

   Some points that may inform this case discussion are as follows:

   - To determine the most appropriate managerial strategy for The Fit Stop, we need to examine the contextual variables. The environment is quite unstable, given the competitors and the changing state of knowledge in physical fitness. The corporate strategy would be most similar to the prospector, as the firm wants to be the first to make new fitness products and solutions available to its customers. Under Porter, it would be a focused differentiator.

   - The technology is intended to be intensive, where every customer is given a custom-made solution to their fitness problems. The overall organization will be quite large, but the size of each store will be relatively small. Susan needs dedicated employees who will be

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willing to learn and develop, and to have a high concern for customers and the company. She is going to need high membership behaviour, high task behaviour, and high citizenship behaviour from her employees. All of this suggests a high involvement managerial strategy.

- Susan would likely be favourably disposed towards high involvement, because she recognizes the importance of teamwork and employee commitment to the success of her business. She has already decided to hire only full-time employees, in recognition of the need to have a stable and highly trained work force, which fits in very well with a high involvement organization. Moreover, her background in sports will likely have taught her the value of teamwork in achieving success.

3. Multi-Products Corporation. The purpose of this case question is also to give students a better understanding of the contextual variables and their purpose by giving them an opportunity to apply the template for selecting the most appropriate managerial strategy (*Compensation Notebook 2.2*). In contrast to the Fit Stop above, this case calls for a classical managerial strategy, although an argument could be made for a human relations strategy. (Note: This is a recurring case, and students can be given the opportunity to do further work with this case later in the book. See Chapter 4, Case Question 2, and Chapter 6, Case Question 2.)

   Some of the points that may inform this case discussion are:

   - The first step is to examine the contextual variables:
     - Relatively stable environment, because of the patents, guaranteed source of funding, stable technology, non-militant labour unions, etc.
     - Relatively simple environment, because firm will basically make one product
     - Golf club production technology unchanged and straightforward, long linked, routine, and mass
     - Defender strategy, whereby the division will focus on excelling and dominating in a limited domain, focused differentiator under Porter
     - The size of the division is small to medium
     - The skills needed by employees are only moderate, although consistency of performance is important

   - Overall, the organization probably does not need high membership, task, or citizenship behaviour.

   - Given all this, the strategic template clearly calls for a classical managerial strategy.

   - However, a human relations strategy has some appeal because the firm wants a high quality product, and the human relations strategy is more likely to produce committed workers. Moreover, because of the monopoly position the firm holds in regard to the product, and the fact that demand is price-inelastic, the company could afford the higher costs of a human relations strategy. Use of the classical strategy will make it more likely that the employees will become unionized. If the firm does become unionized, use of a

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classical strategy could end up producing disgruntled workers who are difficult to fire. On the other hand, the union in this industry has not been very militant, so unionization may not be a huge problem for the firm, and if pay and benefits are kept at market levels, employees may not have a strong incentive to unionize in any case.

- If a classical strategy is adopted, a fairly simple system including hourly wages and a limited set of employee benefits would fit best. Piece rates would fit this philosophy, but may detract from the product quality needed.

- If a human relations strategy is selected, a salary approach, with seniority increases and liberal benefits increasing with time, would be the best bet, along with opportunities for social interaction among organization members.

Possible Sources of Lecture Enrichment

The following web links can be used as a source of materials for lecture enrichment:

- For examples of the latest trends and issues in compensation, go to the *Canadian HR Reporter*: http://www.hrreporter.com or the *WorldatWork* website: http://www.worldatwork.org/waw/home/html/compensation_home.jsp**.**

Supplemental Exercises

The following two exercises can be used to help students better understand managerial strategy, and how it relates to the structural variables of the firm.

1. Design Your Own Company. This exercise is intended to show how managerial assumptions about people (employees) affect the way in which an organization will be structured, and also to help students better understand the main structural options available to an organization. Following are three sheets, each asking students to adopt classical assumptions (Set 1), human relations assumptions (Set 2), or high-involvement assumptions (Set 3).

   Form students into pairs for this exercise, and hand out one sheet to each pair. Approximately one-third of the pairs should get Set 1, one-third should get Set 2, and the remaining third should get Set 3. (Don't tell the students that there are three sets of assumptions—this would greatly diminish the impact of the exercise!) It works best if you hand out each set to a different portion of the classroom.

   In this exercise, student pairs are asked to design a fictitious firm, using the six structural dimensions, based on the assumptions they are given. After they have done this, ask each pair to indicate the choice they have made for each structural variable, and record the letter for each structural choice on a chart on the blackboard. (Choice (a) for structural dimension represents the classical school; choice (b) represents the human relations school, and choice (c) reflects the high-involvement school.) Start with the same area of

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the room, say, with the classical assumptions. Students will notice how consistent the responses are. Students with the other sets will notice how different the choices are from their own, and will wonder why.

Next, move to the high-involvement pairs (Set 3). Again, the results will be very consistent, in pointing to structural dimensions that fit with high involvement (i.e., they will be all "c"). Finally, go to human relations, and they will be mainly "b," although this one will be a bit inconsistent, because the human relations school falls in between the other two.

Students are always impressed to see how just a few assumptions can consistently dictate the way in which an organization is structured. (One thing that I note is my experience that from speaking just a few minutes with the founder of a company, and learning her or his assumptions, I can predict with a high degree of certainty how her or his organization will be structured, without knowing anything at all about the actual structure!) For each structural variable, discuss why a particular set of assumptions will lead to this outcome. Overall, this exercise has a lot of impact on students, conveys very effectively the relationship between assumptions and managerial strategy, and also helps them understand the structural dimensions.

2. Classify Your Firm. This exercise gives students the chance to see if they can recognize the type of managerial strategy at a firm at which they have had personal experience, and helps them to learn how to do so by applying the structural variables. Hand out the "Classify Your Firm" worksheet to all students, and ask them to select which structural dimension best reflects their firm.

   Collect these sheets, and then present a tabulation in the next class session. If a firm has at least four dimensions consistent with a particular managerial strategy, I classify it as having that managerial strategy. (If not, I say it has a mixed or no distinct managerial strategy.) Return the worksheets to the students so they can see where their firms fall on the managerial strategy continuum.

   Using the tabulation, discuss why some firms tend to be classical, others high-involvement, and so on. Reference the contextual variables, and see if they can help explain the results. For example, if the classical firms tend to be fast-food restaurants, and the high-involvement firms tend to professional services firms, discuss how their environments, technology, etc., may differ.

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Design Your Own Company! (Set 1)

You are just starting a company that will have about 200 employees initially, but is expected to grow steadily. You need to design the organization structure. Unfortunately, you have had no management training. However, you believe that you have a pretty good understanding of human nature. ***The following are your beliefs about people (employees)***:

(a) Most employees are inherently lazy and will avoid work if they possibly can.

(b) Most employees are primarily motivated by economic incentives and will do what will get them the greatest economic gain, while doing as little as they can in return.

(c) Human feelings can cause unpredictable behaviour, so organizations must be designed in such a way as to neutralize and control human feelings and thereby control their unpredictable traits.

(d) Although most people are not capable of self-control, some are. These manage the rest.

Organization Design: The following are some dimensions of organization structure, along with some of the options available for each dimension. ***In designing your organization structure, choose the ones that fit best with your beliefs about people (as described above).***

Job Design:
(a) Narrow, very specific jobs that prevent social interaction
(b) Narrow, specific jobs that may allow some social interaction
(c) Broad, challenging jobs that allow employees scope in deciding how to do their work

Coordination:
(a) Strict pyramidal hierarchy, with many rules; coordination by bosses
(b) More flexible structure, with coordination by employees themselves; relatively few rules
(c) Pyramidal hierarchy; many rules; most coordination by bosses, some by employees

Control:
(a) Exercised through employee peer pressure, through supervisor if this fails
(b) Employees expected to exercise self-control
(c) Exercised through close supervision, strict enforcement of rules, with penalties for breaching them

Communication:
(a) Open communication, high flow of communication up, down, and across the organization
(b) Very little communication, very restricted access to information
(c) Lots of social communication, but little task-oriented communication; restricted access to information

Leadership and Decision Making:
(a) Autocratic leadership, task-oriented, centralized decision making
(b) Participative leadership, decentralized decision making
(c) Autocratic leadership, employee-oriented, centralized decision making

Reward Systems:
(a) Fixed salary with seniority bonuses and liberal fringe benefits
(b) Pay based on number of units produced or hours worked
(c) Salary with gain sharing, profit sharing, or employee stock plans

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Design Your Own Company! (Set 2)

You are just starting a company that will have about 200 employees initially, but is expected to grow steadily. You need to design the organization structure. Unfortunately, you have had no management training. However, you believe that you have a pretty good understanding of human nature. ***The following are your beliefs about people (employees)***:

(a) Most employees are basically motivated by social needs and obtain their basic sense of identity through relationships with others.

(b) As a result of the fragmentation of jobs, meaning has gone out of work itself and must therefore be sought in the social relationships on the job.

(c) Most employees are more responsive to the social forces of the peer group than to the incentives and controls of management.

(d) Employees are responsive to management to the extent that management can meet employees' social needs and needs for acceptance and can get the work group to adopt favourable group norms.

Organization Design: The following are some dimensions of organization structure, along with some of the options available for each dimension. ***In designing your organization structure, choose the ones that fit best with your beliefs about people (as described above).***

Job Design:
(a) Narrow, very specific jobs that prevent social interaction
(b) Narrow, specific jobs that may allow some social interaction
(c) Broad, challenging jobs that allow employees scope in deciding how to do their work

Coordination:
(a) Strict pyramidal hierarchy, with many rules; coordination by bosses
(b) More flexible structure, with coordination by employees themselves; relatively few rules
(c) Pyramidal hierarchy; many rules; most coordination by bosses, some by employees

Control:
(a) Exercised through employee peer pressure, through supervisor if this fails
(b) Employees expected to exercise self-control
(c) Exercised through close supervision, strict enforcement of rules, with penalties for breaching them

Communication:
(a) Open communication, high flow of communication up, down, and across the organization
(b) Very little communication, very restricted access to information
(c) Lots of social communication, but little task-oriented communication; restricted access to information

Leadership and Decision Making:
(a) Autocratic leadership, task-oriented, centralized decision making
(b) Participative leadership, decentralized decision making
(c) Autocratic leadership, employee-oriented, centralized decision making

Reward Systems:
(a) Fixed salary with seniority bonuses and liberal fringe benefits
(b) Pay based on number of units produced or hours worked
(c) Salary with gain sharing, profit sharing, or employee stock plans

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Design Your Own Company! (Set 3)

You are just starting a company that will have about 200 employees initially, but is expected to grow steadily. You need to design the organization structure. Unfortunately, you have had no management training. However, you believe that you have a pretty good understanding of human nature. ***The following are your beliefs about people (employees)***:

(a) People seek to be mature on the job and are capable of doing so. Employees tend to live up (or down) to expectations. If employees are given trust, they will usually be trustworthy.

(b) Work can be as natural as play if it satisfies higher order needs for learning and growth.

(c) Employees are primarily self-motivated and can exercise self-control if they are treated fairly and are given interesting jobs that allow autonomy, learning, and growth.

(d) There is no inherent conflict between individual goals and organization goals. If employees are treated fairly, and if the reward system is structured properly, they will voluntarily integrate their goals with those of the organization.

Organization Design: The following are some dimensions of organization structure, along with some of the options available for each dimension. ***In designing your organization structure, choose the ones that fit best with your beliefs about people (as described above).***

Job Design:
(a) Narrow, very specific jobs that prevent social interaction
(b) Narrow, specific jobs that may allow some social interaction
(c) Broad, challenging jobs that allow employees scope in deciding how to do their work

Coordination:
(a) Strict pyramidal hierarchy, with many rules; coordination by bosses
(b) More flexible structure, with coordination by employees themselves; relatively few rules
(c) Pyramidal hierarchy; many rules; most coordination by bosses, some by employees

Control:
(a) Exercised through employee peer pressure, through supervisor if this fails
(b) Employees expected to exercise self-control
(c) Exercised through close supervision, strict enforcement of rules, with penalties for breaching them

Communication:
(a) Open communication, high flow of communication up, down, and across the organization
(b) Very little communication, very restricted access to information
(c) Lots of social communication, but little task-oriented communication; restricted access to information

Leadership and Decision Making:
(a) Autocratic leadership, task-oriented, centralized decision making
(b) Participative leadership, decentralized decision making
(c) Autocratic leadership, employee-oriented, centralized decision making

Reward Systems:
(a) Fixed salary with seniority bonuses and liberal fringe benefits
(b) Pay based on number of units produced or hours worked
(c) Salary with gain sharing, profit sharing, or employee stock plans

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Classify Your Firm

Firm Name: _____

Your task here is to classify your current employer (or a previous employer) according to which of the following choices within each structural dimension best describes that employer, for the majority of its employees. *Do not base your selection* on what you would like the organization to be, or what the organization claims to be, but on what the organization actually displays, for the majority of its employees.

Job Design:
(a) Narrow, very specific jobs that prevent social interaction
(b) Narrow, specific jobs that may allow some social interaction
(c) Broad, challenging jobs that allow employees scope in deciding how to do their work

Coordination:
(a) Strict pyramidal hierarchy, with many rules; coordination by bosses
(b) More flexible structure, with coordination by employees themselves; relatively few rules
(c) Pyramidal hierarchy; many rules; most coordination by bosses, some by employees

Control:
(a) Exercised through employee peer pressure, through supervisor if this fails
(b) Employees expected to exercise self-control
(c) Exercised through close supervision, strict enforcement of rules, with penalties for breaching them

Communication:
(a) Open communication, high flow of communication up, down, and across the organization
(b) Very little communication, very restricted access to information
(c) Lots of social communication, but little task-oriented communication; restricted access to information

Leadership and Decision Making:
(a) Autocratic leadership, task-oriented, centralized decision making
(b) Participative leadership, decentralized decision making
(c) Autocratic leadership, employee-oriented, centralized decision making

Reward Systems:
(a) Fixed salary with seniority bonuses and liberal fringe benefits
(b) Pay based on number of units produced or hours worked
(c) Salary with gain sharing, profit sharing, or employee stock plans

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Notes on Duplox Copiers – Phase I

It is readily apparent that Duplox Copiers has been using a classical managerial strategy in previous years and that their "solution" to the problems they are facing is to become even more classical. They have fragmented jobs in order to make it easier to train new technical service specialists (TSS) and to replace TSSs who quit. They have tightened controls on TSS behaviour and expenditures. In so doing, they have increased TSS productivity dramatically and have succeeded in keeping expenses down. But this has come at a big cost—dissatisfied customers and dissatisfied TSSs, as well as a dysfunctional organizational culture in which dysfunctional behaviour and conflict flourish. Interestingly, while managers benefit financially for the productivity increases and the cost reductions through their compensation systems, none of this flows to the TSSs, who are responsible for creating the productivity increases and cost reductions.

Overall, it appears that the technical service specialists—who are key to customer satisfaction with the company and its products—have borne the brunt of the firm's declining competitive position. Their jobs have become unattractive in many ways, and the firm has been forced to increase their extrinsic rewards (mainly pay) to make up for their diminished intrinsic rewards.

Let's take a look at what's happened to the job characteristics of technical service specialists in recent years. Skill variety has been reduced, since they are now dealing with only one type of machine. Task identity has been reduced, since it is often not possible to complete the repairs on a machine due to lack of parts, and often another TSS will finish the job when the parts come in. As for task significance, the implication from top management and other departments, such as sales, is that they are not doing an important job, and they are clearly playing second fiddle to the sales department, who belittle their abilities and their tasks. Their job autonomy is very low, since they are monitored closely, have to check to get parts, have strict cost guidelines, and are even overruled when it comes to proper installation. They do get feedback, but it is mainly negative, as they take blame from all sides when a problem occurs. This is a classic situation for stress, where individuals are held responsible for situations over which they have very little control.

One of the key problems in this organization is the reward structure, which is causing conflicting goals between key units in the firm, especially sales and service. Because the pay of sales people is strongly related to volume of sales, they tend to focus on selling new machines, based on the idea that if they sell a new machine, they will also make money from the service contract that usually goes along with each sale. They are not prepared to risk a sale just to ensure proper installation, and top management seems to back them up on this.

On the other hand, service managers are rewarded on reducing service costs as much as possible by increasing the number of machines serviced by a TSS, keeping service times low, and minimizing parts inventory. Because of charge-backs against their budgets, they are even reluctant to call in help or advice from the training and support unit. Of course, all of these things work against one another and against customer satisfaction. The company's rigid policy on charge-backs also greatly reduces the inclination for sales managers to invest in training for their sales personnel, since the cost is then deducted from their sales results. This doesn't help either.

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So what managerial strategy does this situation call for? Until now, the firm appears to have focused only on task behaviour, with little or no focus on membership behaviour or citizenship behaviour. Since the TSSs work on their own, the firm has created a complex set of external management controls to monitor task behaviour. Given the need for thinking behaviour in diagnosing and dealing with equipment failures effectively, and the need to deal with customers in a satisfactory way, there is a need for all three types of behaviour—task, membership, and citizenship. This, of course, suggests a high-involvement managerial strategy.

Let's look at the contextual variables more systematically. The environment has become less stable, with more competitors, and also more complex, as products grow ever more complex and diverse. The competitive strategy that the firm has implicitly been using is the defender, where they try to excel in a fairly narrow domain, or low-cost strategy, as they try to compete by reducing costs. Parts of their technology are routine, such as routine servicing, while other parts are engineering, where specified procedures are used to address breakdowns and quality problems. For the sales part of the operation, the technology is mediating. The products dealt with are things, in terms of servicing the machines. The size of the organization is medium to large. Skills required of the workforce are moderate to high, as are the economic circumstances.

As can be seen, these contextual variables are a bit mixed, and they don't all call for the high-involvement strategy. Indeed, an argument could be made for the human relations strategy. However, the key deciding factor is the fact that most employees, both sales and service, work independently without supervision, and we need them to exercise self-control. So this calls for the high-involvement strategy. Once students come to this realization, then the general outline for the organization structure that they need will flow from Compensation Notebook 2.1 on page 26. Of course, students need to flesh these out by applying them specifically to Duplox.

However, before they work on specific recommendations, students need to apply the behavioural framework to provide more insights on the causes of the problems at Duplox and to point them toward possible solutions. I don't expect them to apply all the behavioural concepts in Chapter 3, but I do expect them to show application of the behavioural framework by using some of the concepts appropriate to this case.

I have already discussed some examples of relevant concepts from Chapter 3, such as job characteristics and intrinsic motivation. Another such concept is reward problems. Reward problems include reward dissatisfaction and the production of desired behaviour with undesirable consequences. Most of the causes of reward dissatisfaction are evident, including relative deprivation and a lack of organizational justice. To keep the TSSs, base pay has been increased, which produces continuance commitment at best. There is no evidence of affective commitment in this firm at all. Expectancy theory can be used to show that TSSs have a low expectancy of meeting the standards to obtain merit awards, and possibly low instrumentality even if they do, since the number of merit awards is strictly limited. The expectancy of the sales staff is diminishing as well, since customer dissatisfaction is increasingly making sales difficult.

For the move to a high-involvement style, quite a few changes need to be made. TSS jobs need to be broadened; coordination needs to become more horizontal; communication needs to improve; and decision making needs to be pushed down the hierarchy, with more reliance on self-

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control. One key structural feature could be the use of teams of technical service specialists, with each team assigned to a specific set of customers, probably designated on a geographic basis. (For example, one team might handle all the servicing needs for southwest Edmonton.) Within each team would be TSSs who collectively have the skills to install and service all machines in their territory. These teams would be virtual in the sense that members still work individually, or possibly in pairs for training purposes, but would communicate electronically and through regular face-to-face meetings. Each team would designate one member to serve as the coordinator, but it would be useful to have this role rotate over time.

But to make this work requires a very different reward and compensation strategy from what is now in place. Some type of group performance pay plan would be useful for each team, probably some type of goal sharing, which would incorporate a variety of group performance and customer satisfaction goals. A key part of this would be a pay-for-knowledge system for TSSs. A three-by-four skill grid can be developed, with the four model series across the horizontal axis and the three levels of skills (i.e., Levels I, II, and III) along the vertical axis. To tie TSSs into organization goals, they should also be included in profit sharing and employee stock plans.

For managers, the dysfunctional system of individual incentives that work at cross-purposes throughout the firm should be eliminated, and all managers should be rewarded on their contribution to a common goal, most likely profitability. Charge-back systems that create a disincentive to use training and support services should be eliminated.

For sales staff, the use of individual incentives should be scaled back, and those that are used should be based on more than simply sales volume, such as profitability of sales and customer satisfaction. Indeed, a customer satisfaction element should be included in the performance pay of all employees, whether or not they are sales staff or managers. A profit-sharing plan should be introduced but needs to be tied to the performance of Duplox Canada, not Duplox Incorporated. Although employee stock plans would normally be desirable, the fact that Duplox Canada is a wholly owned subsidiary of Duplox Incorporated diminishes their value because the performance of Duplox Canada will have only a small impact on the share price of Duplox Incorporated.

The issue of what to do with indirect pay is a bit problematic. At 15 percent of total compensation, it is running considerably below the industry average of 20 percent. But is this a good time to be bringing this up to industry standards? It may help with recruiting somewhat, and with retention, but it basically serves mainly to create continuance commitment, when we need affective commitment. It might be better to either wait to bring this up, or to discover the highest priority of employees and put some limited extra funds there. The best way to proceed might be to move toward some type of flexible benefits plan, which would automatically show employee preferences.

The key outcome of the strategy formulation process is a set of compensation strategy templates. One template is needed for each employee group that differs in its compensation strategy. This means that at least two templates are required: one for the pay-for-knowledge group and one for the job evaluation (JE) group. However, the job evaluation group needs to be segmented, because the same compensation strategy will not fit all the employee groups in it. Four JE groups would probably make sense: sales staff, professional staff, administrative/support staff, and the managerial staff.

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When filling out the compensation strategy templates, I don't usually require the students to provide a detailed breakdown of the individual items under indirect pay, since this chapter will not have been covered by the end of Phase I, but students should give some indication of the items they might include. Also, while the compensation strategy template calls for the specification of the types of performance pay to be used, the fleshing out of the performance pay plans will not be done until Phase III, along with the indirect pay plan.

I have included a sample of a compensation strategy template for the pay-for-knowledge group (the technical service specialists), as well as a grading sheet that I provide for feedback (found in the last section of this notes package). I also give a blank copy of the grading sheet to students during the phase orientation, talking specifically about what I expect in each section. Feel free to adjust the grading sheet to suit your emphasis.

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Compensation Strategy Template

Jobs Covered: *Technical Service Specialists*

Total Compensation Level: Match? _____ ***OR*** Lead? 5 % ***OR*** Lag? _____%

Compensation Component	**Projected Proportion of Total Compensation**
1. Base Pay	65 %
a. Job Evaluation	%
b. Market Pricing	%
c. Pay for Knowledge	65 %
2. Performance Pay	20 %
a. Individual Performance Pay	%
i. Piece Rates	%
ii. Commissions	%
iii. Merit Bonuses	%
iv. Special Incentives	%
b. Group Performance Pay	%
i. Gain Sharing	%
ii. Goal Sharing	10 %
iii. Other Group Pay	%

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c. Organization Performance Pay		%
i. Profit Sharing	10	%
ii. Stock Plan		%
iii. Other Organization Pay		%
3. Indirect Pay	15	%
i. Mandatory Benefits	8	%
ii. Pension Plan	3	%
iii. Health & Life Insurance	2	%
iv. Paid Time Off	1	%
v. Employee Services	1	%
vi. Other Benefits		%

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Journal/Professional Reflection

Long/Singh, Strategic Compensation in Canada, Sixth Canadian Edition

INTRODUCTION

Research shows that student learning is deeper when they are able to reflect on their own experiences as part of course-related learning. The collection of personal reflections that come from weekly journal entries will help students think about their own professional learning in a personal and meaningful way. The journal entries are private and should be shared only between the individual student and the professor. Journal entries should not be shared with any of other students in the course.

SAMPLE RUBRIC AND INSTRUCTIONS

Students will be required to respond to a weekly statement (linked to in-class discussions) that is posted on the student learning journal site. Student responses should be no longer than 200 words for each entry. Entries will be graded and evaluated for proper spelling, grammar, and the quality of response that connects and reflects student personal insights.

- Weekly journal entries must be completed by a designated time and date.
- Entries will be reviewed and graded each week.
- X number of journal entries are required per course (maximum 10).
- Each entry has a maximum value of 5 marks for a total of 50 possible marks (10 entries x 5 marks).

Portfolio - Personal Reflection (Journal) Rubric: 5 marks possible as follows:

Proper Spelling: 1

Proper Grammar: 1

Response Quality: 3 points possible as follows:

1: Response underdeveloped and little or no attempt is made to reflect on theme, message, or issue
2: Response is adequate and some attempt is made to reflect on theme, message, or issue
3: Responses is thorough and evident attempt is made to reflect on theme, message, or issue

REFLECTION TOPICS

Reflection Topic #1:
In your professional HR Journal (Hard copy or E-copy) complete the following:

> *I think that the role of the HR professional when developing a strategic framework for compensation should be to….*

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Reflection Topic #2:
Provide a response to the following by selecting either a positive (I believe) or not so positive (I do not believe) perspective:

> *I believe/do not believe that it would be difficult for me to work in a classical managerial strategy because….*

Reflection Topic #3:
Respond to the following:

> *As a result of today's class discussions, I need to learn more about….*

Reflection Topic #4
Respond to the following:

1. *My current workplace is based on the following management strategy:*
2. *The evidence in my current workplace that supports this type of strategy can be found in….*

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NELSON

PowerPoint

Presentation for

Strategic Compensation in Canada Sixth Edition



Prepared by

Greg Cole

Saint Mary's University

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Chapter 2

A Strategic Framework for Compensation

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Chapter Learning Objectives

- Understand the concept of “fit” and explain why a compensation system that is a success in one firm can be a failure in another.
- Explain how the strategic framework for compensation can be used as a tool designing effective reward and compensation systems.
- Describe the main sets of elements in the strategic compensation framework, and explain how they relate to one another.

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Chapter Learning Objectives

- Describe the three main managerial strategies that organizations can adopt, and explain the implications for the most effective reward and compensation system.
- Describe the main determinants of managerial strategy, and explain how they can be used to select the most appropriate managerial strategy.

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Chapter Learning Objectives

- Analyze any organization to determine the most appropriate managerial strategy for that organization to adopt.
- Discuss how conditions in North America changed during the 20th century, and explain how this has affected today's managerial and compensation strategies.

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Effective Compensation Systems

- A Tale of Two Firms: L-S Electro-Galvanizing (LSE) and Koch Foods

Which compensation system
is the most effective?

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A Strategic Framework for Compensation

- Vision – desired future state
- Mission – reason for existence
- Values – principles, beliefs, and attitudes
- Vertical fit – alignment of strategies at different levels
- Horizontal fit – alignment of strategies at the same level

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A Strategic Framework for Compensation

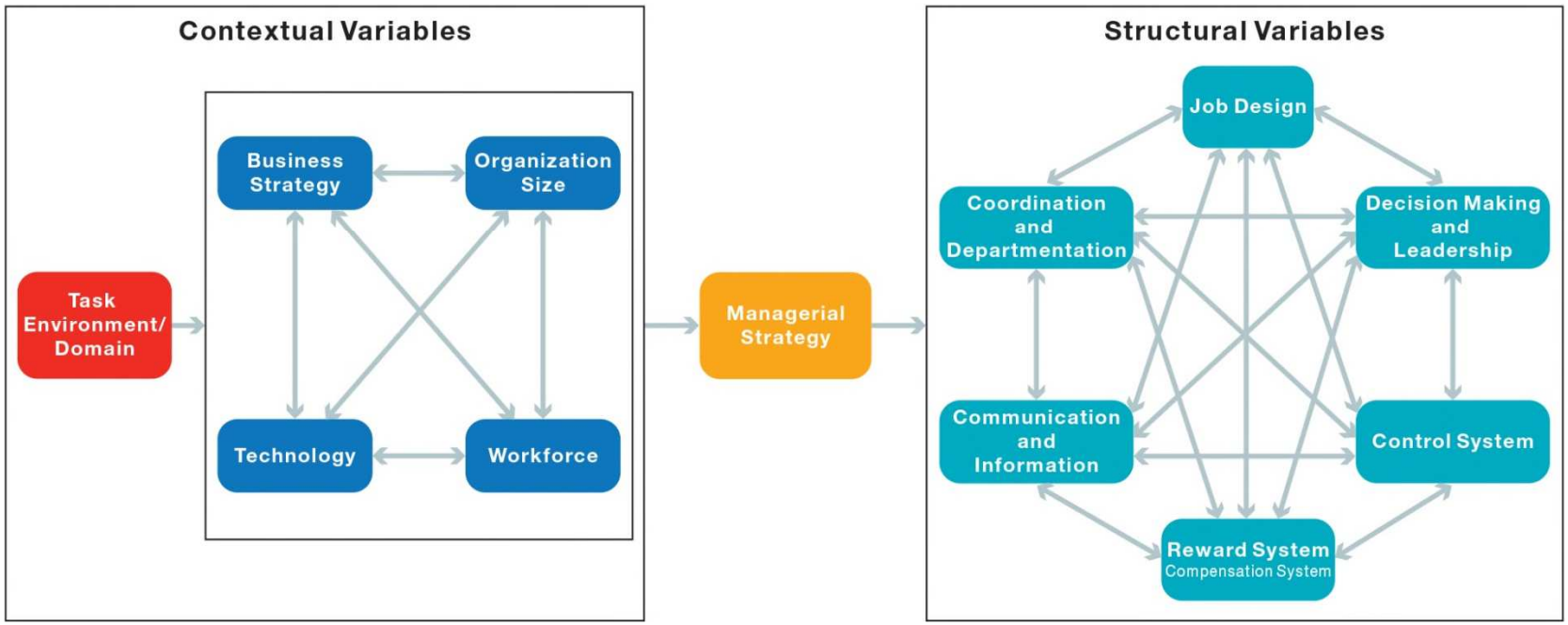
- Business strategy – Plan for achieving goals
- Organizational structure – Means through which an organization generates the behaviours necessary to execute its business strategy
- Contingency approach to organizational design – An approach based on premise what the best type of structure depends on the key contingencies (contextual variables)

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A Strategic Framework for Compensation

FIGURE 2.1

A STRATEGIC FRAMEWORK FOR COMPENSATION



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A Strategic Framework for Compensation

- Structural variables
  - Reward system
  - Job design
  - Coordination and departmentation
  - Decision-making and leadership structure
  - Communication and information structure
  - Control structure

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A Strategic Framework for Compensation

- Managerial Strategy
  - One of the three main patterns or combinations of structural variables that can be adopted by an organization:
    - Classical
    - Human relations
    - Contextual

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A Strategic Framework for Compensation

- Contextual variables
  - Factors in the firm's context that indicate the most appropriate managerial strategy and organizational structure
    - Organization's environment
    - Business strategy
    - Technology
    - Size
    - Workforce

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Managerial Strategies and Reward Systems

- Classical managerial strategy
- Human relations managerial strategy
- High-involvement managerial strategy

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COMPENSATION NOTEBOOK 2.1

COMPARISON OF THE THREE MANAGERIAL STRATEGIES AND THEIR STRUCTURAL IMPLICATIONS

STRUCTURAL VARIABLE	CLASSICAL MANAGERIAL STRATEGY	HUMAN RELATIONS MANAGERIAL STRATEGY	HIGH-INVOLVEMENT MANAGERIAL STRATEGY
Job Design	Thinking separate from doing; narrow, fragmented jobs.	Similar to classical, but job design may allow more social contact.	Joint planning and goal setting; broader, more meaningful jobs.
Coordination and Departmentation	Strict, formalized pyramidal hierarchy emphasizing accountability; vertical coordination (by superiors); departmentation by function.	Similar to classical; possibly use of some work teams.	Horizontal coordination (by employees) in addition to vertical coordination; use of work teams; departmentation by product, customer, project, or matrix.
Control	External—through supervision, rules, punishments, and some extrinsic rewards.	External—through use of social or peer pressure, rules, some extrinsic rewards.	Internal—through intrinsic rewards from the work itself, self-control through internalized commitment.
Communication	Formal and vertical; restricted.	Use of formal and informal (grapevine) communication; some restriction.	High amount of vertical and horizontal communication; less formal; climate of open communication.
Decision Making and Leadership	Autocratic decision making; task-oriented; controlling supervisory role.	Autocratic decision making with minor consultation; employee-oriented; controlling supervisory role.	Participative or democratic decision style; both task- and employee-oriented; facilitator supervisory role.
Reward Systems	Extrinsic economic rewards related to individual output (e.g., piece rates, commissions) or to time worked (e.g., hourly pay).	Extrinsic economic rewards, unrelated to performance; liberal fringe benefits (indirect pay) and loyalty rewards; social rewards.	Intrinsic rewards from job itself; pay for knowledge; extrinsic rewards focusing on group/organization performance (e.g., gain sharing, profit sharing, stock ownership).

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Interrelationships Among Structural Variables

- Some elements are complimentary, others serve as substitutes for others
  - A single managerial strategy is usually more effective than an inconsistent mix of structural elements

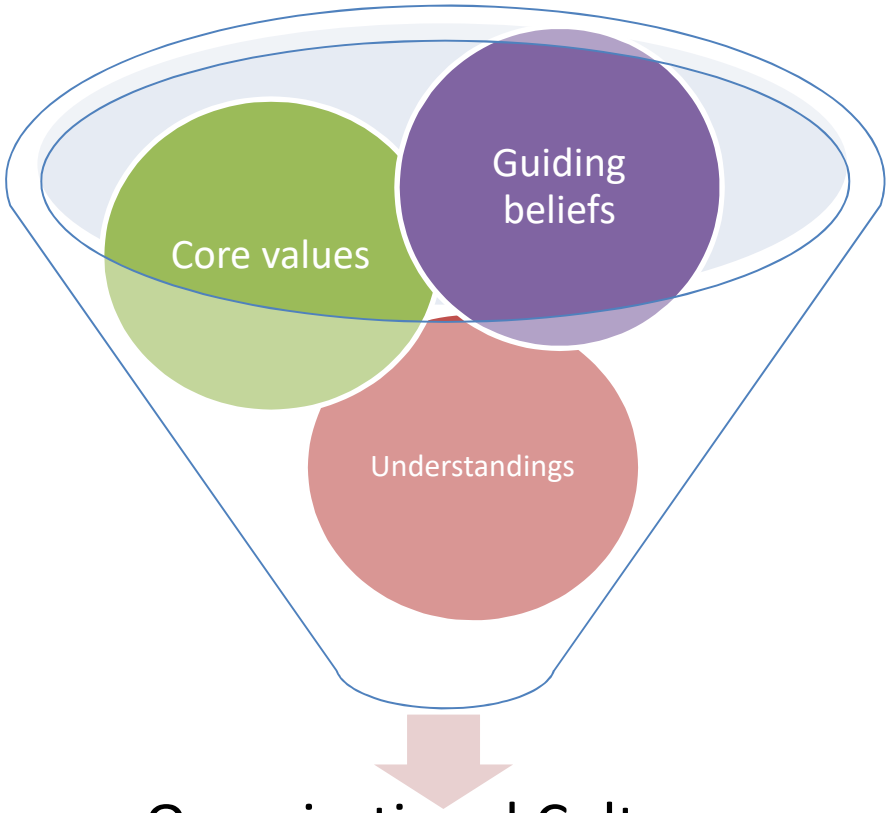


iStock/Thinkstock

Intrinsic rewards can be motivational.

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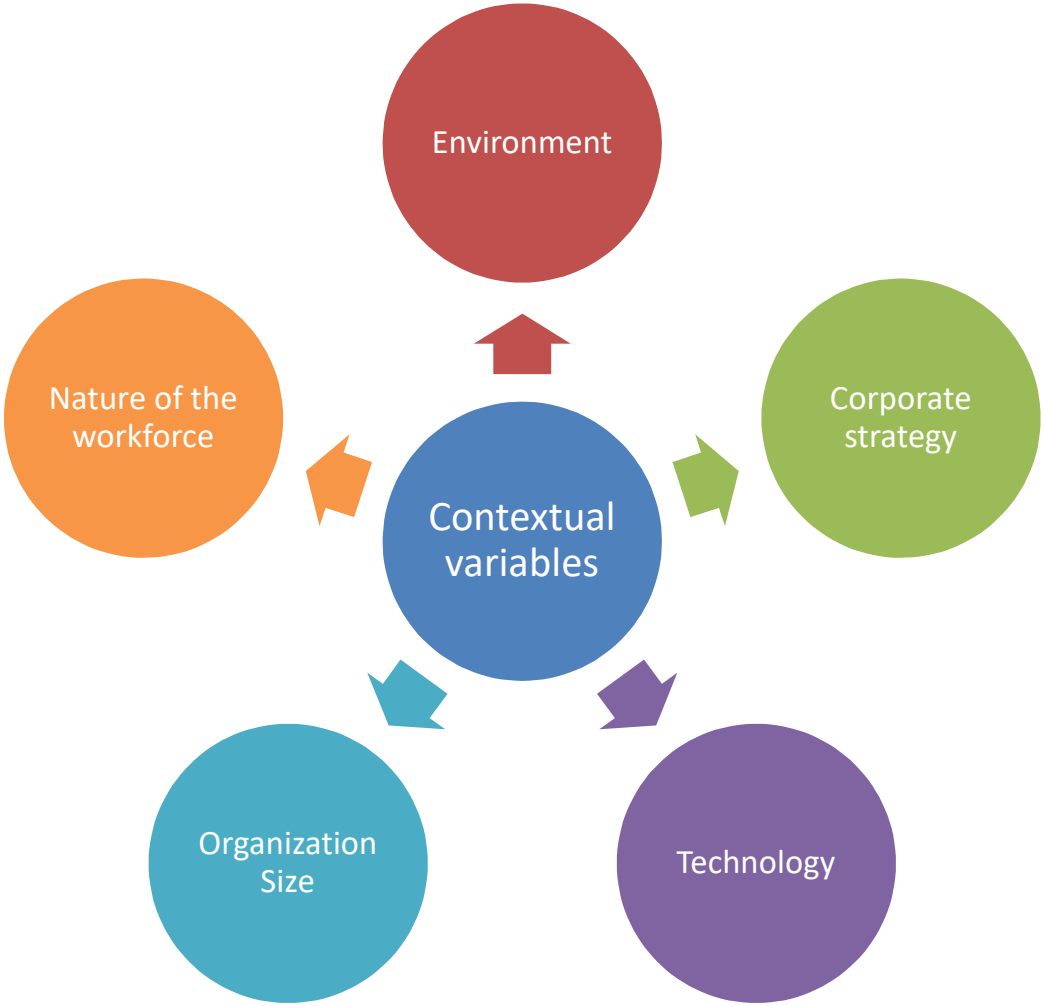
Interrelationships Among Structural Variables



Organizational Culture:
A Guide to Employee Behaviour

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Determinants of the Most Appropriate Managerial Strategy



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Environment

- Most important of the contextual variables
  1. Stable or unstable?
  2. Simple or complex?
- These combinations determine the most effective approach

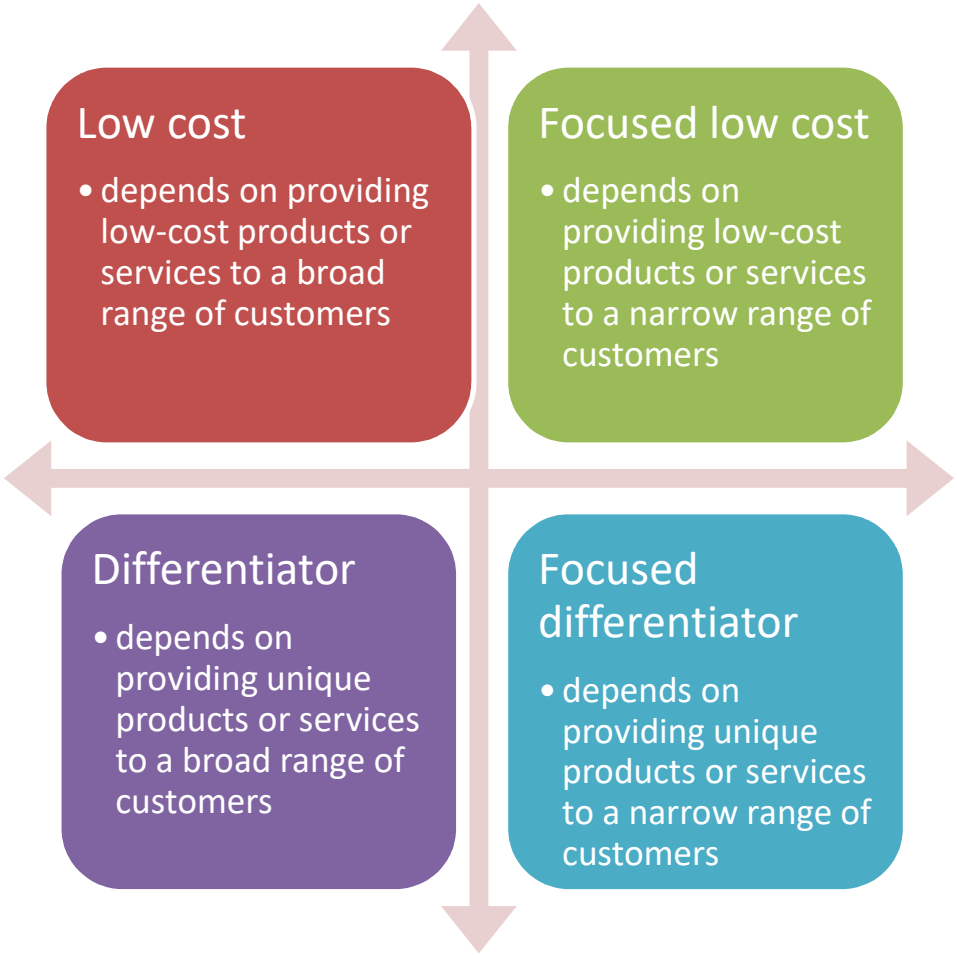
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Corporate Strategy Miles and Snow



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Corporate Strategy Porter's Typology



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Technology

- Set of procedures and resources an organization uses to transform resources to usable products and services
  - Type of production processes
  - Routine or non-routine
  - Small or large batch
  - Implication for workforce capabilities

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Organization Size

- Large organizations generally use classical or human relations strategies
- Easier to implement high involvement in a small- to medium-sized organization
  - The larger the organization, the greater the need for some formal structure
- Hewlett-Packard has traditionally used this approach

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The Nature of the Workforce

- Highly skilled, well-educated, or professional employees are more suited to the high-involvement organization
- High-involvement strategy requires these characteristics because of the broad job and decision-making responsibility expected of employees

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The Nature of the Workforce

- Classical organizations are specifically designed to use employees with relatively low skill levels, and because of their approach to motivation and control, these organizations are most suited to workers who badly need the money the job provides

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The Nature of the Workforce

- Role of unions
- Unions can have an effect on employee skills, their tasks and responsibilities, and their expectations



Simon Hayter/Stringer/Getty

Unions influence employees' pay.

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COMPENSATION NOTEBOOK 2.2

TEMPLATE FOR SELECTING THE MOST APPROPRIATE MANAGERIAL STRATEGY FOR AN ORGANIZATION TO ADOPT

CONTEXTUAL VARIABLE	CLASSICAL	HUMAN RELATIONS	HIGH-INVOLVEMENT
Environment			
• Stability	Stable	Stable	
• Complexity	Simple	Simple or complex	Unstable complex
Business Strategy			
• Miles and Snow typology	Defender	Analyzer	Prospector
• Porter's typology	Low cost	Focused differentiator	Differentiator
Technology			
• Product transformed	Things	People	Ideas
Size			
• Number of employees	Any size	Any size	Small/medium
Workforce			
• Skills/education	Low	Moderate	High
• Economic circumstances	Poor	Moderate	Good

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Trends in Managerial and Compensation Strategies

- All three managerial strategies can be effective if used in the right context
- How are circumstances changing in North America, and how will these changes affect the optimal choice of managerial strategy?

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The Evolution of Managerial Strategies

- Socioeconomic changes in Canada created conditions that are more suitable for high-involvement organizations and less suitable for classical and human relations organizations
- Educational levels have increased
- Economic security and social security have improved
- Social values have become more democratic and egalitarian

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The Evolution of Managerial Strategies

- All of these conditions work against classical and human relations organizations
- Many classical firms have found developing countries are a much better fit for their preferred managerial strategy and have moved operations there
- Human relations organizations tend to be as rigid and inflexible as classical organizations

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Trends in Compensation Systems

- More complicated pay systems
- Increase in pay-for-performance (profit-sharing, employee share plans)
- Flexible benefit plans
- Gradual movement away from hourly pay to salary

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Trends in Compensation Systems

- 1980s and 1990s
  - Wage freezes/rollbacks, cuts to benefit plans, increased use of two-tier wage systems
  - Fell out of practice in late 1990s when economic conditions improved, resurged in 2008-2009 during global financial crisis and recession
  - Increased use of part-time, temporary, and contract workers
  - Trend towards noncash employee recognition programs

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Discussion Questions

1. "If a compensation system works well for one business, that same compensation system should also work well for other businesses." Discuss whether this statement is true.
2. Using the concept of fit, discuss the types of compensation and rewards that would work best for each of the three managerial styles.
3. Discuss recent trends in compensation practices taking place in North America and explain what may be causing those trends.

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