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

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

Answer: E

2) A business practice or process that results in better performance than one's competitors is known as _____.
   A) strategic alliance
   B) association perspective
   C) planned perception
   D) competitive advantage
   E) strategic perspective

Answer: D

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

Answer: B

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

Answer: D

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

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

7) According to the pay model, the strategic compensation decisions regarding management involve:
A) how open and transparent the pay decisions should be to all employees.
B) how the different types and levels of skills and work should be paid within the organization.
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 total compensation should be positioned against competitors.
Answer: A

8) Which of the following is the first step in the development of the total compensation strategy?
A) reassessing the fit
B) mapping a total compensation strategy
C) implementing strategy
D) realigning as strategy changes
E) assessing total compensation implications
Answer: E

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

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

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

12) Which of the following pay strategies is a source of competitive advantage?
A) a pay strategy that ignores individual attitudes and preferences
B) a pay strategy that emphasizes on work/life programs over cash compensation and giving only limited bonuses and no stock awards
C) a pay strategy that specifies low base pay and high job security
D) a pay strategy that overemphasizes on outstanding employee performance and commitment
E) a pay strategy that adds value and is difficult for employers to imitate
Answer: E

13) Which of the following statements is true about assessing the total compensation implications?
A) Internationally, the role of unions in pay determination seldom varies.
B) 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.
C) A pay system reflects the values that guide an employer's behaviour and underlie its treatment of employees.
D) A highly centralized and confidential pay system controlled by a few people in a corporate unit will support a highly decentralized, flexible, open organization.
E) The pay system seldom mirrors a company's image and reputation.
Answer: C

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14) 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?
A) realigning as conditions change
B) implementing strategy
C) reassessing the fit
D) implementing cultural and regulatory changes
E) mapping a total compensation strategy
Answer: E

15) 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?
A) reassessing the fit
B) deciding on a total compensation strategy
C) implementing cultural and regulatory changes
D) assessing total compensation implications
E) implementing strategy
Answer: B

16) Mapping a total compensation strategy includes setting objectives and specifying policies on _____.
A) HR systems
B) employee/union needs
C) core culture/values
D) social and political context
E) contributions
Answer: E

17) 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?
A) realigning as conditions change
B) assessing total compensation implications
C) realigning as strategy changes
D) implementing strategy
E) reassessing the fit
Answer: D

18) 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?
A) implementing strategy
B) reassessing the fit
C) mapping a total compensation strategy
D) implementing cultural and regulatory changes
E) assessing total compensation implications
Answer: A

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

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

21) 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):
A) pay strategy.
B) planned perception.
C) organizational hierarchy.
D) strategic alliance.
E) association perspective.
Answer: A

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

23) Internal alignment suggests that:
A) performance-based pay can affect results.
B) embedding compensation strategy within the broader HR strategy affects results.
C) both smaller and larger pay differences among jobs inside an organization can affect results.
D) 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.
E) paying higher than the average wage offered by competitors can affect results.
Answer: C

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

25) 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?
A) employee contributions
B) internal alignment
C) compensation strategy
D) external competitiveness
E) managing compensation
Answer: E

26) Taking a strategic perspective requires a focus on compensation decisions that helps the organization gain and sustain competitive advantage.
A) True
B) False
Answer: A

27) 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.
A) True
B) False
Answer: A

28) When business strategies change, pay systems should remain the same.
A) True
B) False
Answer: B

29) A compensation strategy emerges from the pay decisions that an organization makes.
A) True
B) False
Answer: A

30) An unstated compensation strategy is inferred from an organization's compensation practices.
A) True
B) False
Answer: A

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31) Trial and error play a major role in developing a compensation strategy.
A) True
B) False
Answer: A

32) All organizations that pay people have a written compensation strategy.
A) True
B) False
Answer: B

33) Pay systems mirror a company's image and reputation.
A) True
B) False
Answer: A

34) Government relations to influence laws and regulations are never a part of compensation strategies.
A) True
B) False
Answer: B

35) Pay strategies need to be adapted to the nature of the union-management relationship.
A) True
B) False
Answer: A

36) Union interests are part of the environmental pressures that help shape compensation strategies.
A) True
B) False
Answer: A

37) The pay strategy is not influenced by how well it fits with other HR systems in the organization.
A) True
B) False
Answer: B

38) Of the three tests of competitive advantage—align, differentiate, add value—align is the most difficult.
A) True
B) False
Answer: B

39) Managing total compensation strategically means fitting the compensation system to the business and environmental conditions.
A) True
B) False
Answer: A

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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) Define competitive advantage.

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

42) 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?

43) 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.

44) 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.

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 relatio 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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46) 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.

47) 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.

48) 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.

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.

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