Compensation 12th edition Milkovich Test Bank

SKU: 9781259532726-TEST-BANK

Chapter 02

Strategy: The Totality of Decisions

Multiple Choice Questions

1. A compensation system that focuses on competitor's labor costs is most closely associated with a(n) _____ strategy.

   A. innovator
   B. customer-focused
   C. cost-cutter
   D. differentiated

2. A compensation system using market-based pay is most likely to be part of a(n) _____ strategy.

   A. innovator
   B. cost-cutter
   C. cost leadership
   D. customer-focused

3. Flexible-generic job descriptions would most likely be used with a(n) _____ strategy.

   A. innovator
   B. customer-focused
   C. differentiated
   D. cost-cutter

4. Mich Inc., a hardware store, has a rating system in place that rates employees on their friendliness, usefulness, and product knowledge. Based on the ratings an employee receives, he or she gets an incentive. The compensation strategy followed by Mich is most closely described as a:

   A. customer-focused strategy.
   B. cost-cutter strategy.
   C. innovator strategy.
   D. differentiation strategy.

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5. A compensation system focusing on system control and work specifications is most closely associated with a(n) _____ strategy.

A. innovator
B. customer-focused
C. cost-cutter
D. differentiated

6. All of the following EXCEPT _____ are compensation systems associated with a cost-cutter strategy.

A. focus on competitor's labor costs
B. focus on system control and work specifications
C. increase in variable pay
D. customer satisfaction incentives

7. In the formula predicting performance, the component most closely related to compensation is _____.

A. A
B. M
C. O
D. C

8. Whole Foods' shared-fate philosophy of limiting executive salaries to no more than 19 times the average pay of full-time employees is an example of which strategic pay decision?

A. External competitiveness
B. Employee contributions
C. Corporate responsibility
D. Internal alignment

9. Comparisons on the forms of compensation used by other companies are part of _____.

A. internal alignment
B. external competitiveness
C. employee contributions
D. corporate responsibility

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10. The second step of developing a total compensation strategy is to:

A. implement the strategy.
B. assess total compensation implications.
C. estimate the cost of the strategy.
D. map the strategy.

11. Which of the following is the correct order of the steps in formulating a total compensation strategy?

A. Assess the strategy, implement the strategy, map the strategy, and reassess the strategy.
B. Assess the strategy, map the strategy, implement the strategy, and reassess the strategy.
C. Map the strategy, implement the strategy, assess the strategy, and reassess the strategy.
D. Map the strategy, assess the strategy, implement the strategy, and reassess the strategy.

12. Based on the opinions of 10,000 U.S. workers, Hudson found that when given their choice of unconventional benefits, most employees would select _____.

A. more supplemental insurance
B. more job training
C. a more flexible work schedule
D. more personal days and family leave

13. According to the Hudson survey, _____ is the single thing that would make 41 percent of the U.S. workers happier.

A. more personal days
B. flexible work schedule
C. more money
D. better health insurance

14. Which of the following statements regarding allowing employees a choice in their pay mix is NOT true?

A. Allowing employees their choice is difficult to manage
B. Allowing employees their choice is easy for competitor companies to imitate
C. Providing unlimited choices for employees to choose from is difficult to design
D. Providing too many choices can confuse people

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15. Union preferences are a major factor in _____ a total compensation strategy.

A. implementing
B. reassessing
C. assessing
D. mapping

16. In mapping a total compensation strategy, the question of how important compensation is in the overall HR strategy is part of _____.

A. objectives
B. internal alignment
C. external competitiveness
D. corporate responsibility

17. _____ refers to openness and communication about pay.

A. Transparency
B. Ownership
C. Prominence
D. Centrality

18. _____ is the measure of how important total compensation is in the overall HR strategy.

A. Competitiveness
B. Prominence
C. Centrality
D. Ownership

19. The role non-HR managers play in making pay decisions is called _____.

A. ownership
B. transparency
C. technology
D. decentralized decision-making

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20. Issues of transparency, technology, and choice are most closely associated with the _____ aspect of mapping a total compensation strategy.

A. objectives
B. management
C. employee contributions
D. internal alignment

21. Career growth, hierarchy, and flexible design are most closely associated with the _____ aspect of mapping a total compensation strategy.

A. objectives
B. internal alignment
C. external competitiveness
D. employee contributions

22. Which of the following is NOT included in a strategy map?

A. External competitiveness
B. Management
C. HR alignment
D. Employee contributions

23. Which of the following is NOT a test of whether a pay strategy is a source of competitive advantage?

A. Alignment test
B. Cost-effectiveness test
C. Differentiation test
D. Value-addition test

24. Which of the following tests of competitive advantage is probably the easiest test to pass?

A. Alignment test
B. Differentiation test
C. Integration test
D. Value-addition test

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25. The alignment test

A. is difficult to imitate.
B. is the most difficult test.
C. helps ensure passing the differentiation test.
D. becomes difficult if the differentiation test is not clear.

26. Trying to measure an ROI for any compensation strategy implies that

A. it is possible to align and differentiate and still fail to add value.
B. people are "human capital," similar to other factors of production.
C. adding value is the most difficult test.
D. value created as a result of costs is difficult to specify.

27. Which of the following statements is NOT true?

A. The effect of performance incentives depends on the context.
B. Embedding compensation strategy in HR strategy affects results.
C. Focusing only on one dimension of the pay strategy is a best practice.
D. The effect of paying more than competitors depends on the context.

28. Research investigating high-performance workplaces found that performance-based pay _____ when combined with other high-performance practices.

A. improves attitudes and behaviors
B. increases the number of middle men required
C. reduces labor costs
D. has little effect on quality

29. When organization performance declines

A. a virtuous circle may be created.
B. performance-based pay plans do not pay off.
C. managers must avoid changing the pay practices.
D. employee attrition rate declines considerably.

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30. Research shows that _____ will effectively shift an organization in a downward performance spiral to an upward one.

A. reinforcing performance-based pay
B. implementing team-based pay
C. improving work-life balance
D. it is unclear what compensation practices

True / False Questions

31. Most organizations rely upon the market to determine how to pay their employees as compensation strategy is uncertain and complex.

True False

32. Strategy refers to the fundamental direction that an organization chooses.

True False

33. An organization defines its strategy through the tradeoffs it makes in choosing what to do and what not to do.

True False

34. At the corporate level, the fundamental strategic decision involves defining the role of the HR in compensation strategies.

True False

35. Customer-focused pay strategies are most likely to use market-based pay.

True False

36. Compensation systems focusing on competitors' labor costs typically follow a cost-cutter strategy.

True False

37. Although three separate compensation strategies may be identified, many companies use a combination of all three.

True False

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38. Most firms do not have generic strategies but use a blend of cost and innovation.

True False

39. Whole Foods' shared-fate philosophy means that executive salaries are at least 19 times the average pay of full-time employees.

True False

40. How an organization positions its total compensation against its competitors is part of external competitiveness strategic choices.

True False

41. All organizations that pay their employees have a compensation strategy even though it may not be stated or written.

True False

42. A compensation strategy should reflect an organization's values.

True False

43. A major challenge in the design of future pay systems is how to better satisfy individual needs and preferences.

True False

44. Providing unlimited compensation choices to employees would meet with disapproval from the U.S. Internal Revenue Service.

True False

45. Since unions represent such a small fraction of the labor force, their influence on pay decisions is insignificant.

True False

46. Pay systems should fit well with other HR systems.

True False

47. In a high-performance system, pay strategy always plays a lead role.

True False

48. Benchmarking and copying best practices does not lead to competitive advantage.

True False

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49. Research on the effects of pay level shows that how employees are paid has no effect on the performance of the employees.

    True False

50. In a virtuous circle, a pay-for-performance strategy results in the improvement of performance.

    True False

Short Answer Questions

51. Define defenders and prospectors as referred to by Miles and Snow.

52. Compensation systems can be tailored to general business strategies. List and explain these strategies.

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53. Explain AMO theory.

54. What are the aspects of the alignment of pay strategy?

55. Write short notes on virtuous and vicious circles.

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Chapter 02 Strategy: The Totality of Decisions Answer Key

Multiple Choice Questions

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A. innovator
B. customer-focused
C. cost-cutter
D. differentiated

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Support Business Strategy

2. A compensation system using market-based pay is most likely to be part of a(n) _____ strategy.

A. innovator
B. cost-cutter
C. cost leadership
D. customer-focused

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Support Business Strategy

3. Flexible-generic job descriptions would most likely be used with a(n) _____ strategy.

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B. customer-focused
C. differentiated
D. cost-cutter

Accessibility: Keyboard Navigation
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Topic: Support Business Strategy

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4. Mich Inc., a hardware store, has a rating system in place that rates employees on their friendliness, usefulness, and product knowledge. Based on the ratings an employee receives, he or she gets an incentive. The compensation strategy followed by Mich is most closely described as a:

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C. innovator strategy.
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Accessibility: Keyboard Navigation
Difficulty: 3 Hard
Topic: Support Business Strategy

5. A compensation system focusing on system control and work specifications is most closely associated with a(n) _____ strategy.

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D. differentiated

Accessibility: Keyboard Navigation
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Topic: Support Business Strategy

6. All of the following EXCEPT _____ are compensation systems associated with a cost-cutter strategy.

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B. focus on system control and work specifications
C. increase in variable pay
D. customer satisfaction incentives

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Support Business Strategy

7. In the formula predicting performance, the component most closely related to compensation is _____.

A. A
B. M
C. O
D. C

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Support HR Strategy

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8. Whole Foods' shared-fate philosophy of limiting executive salaries to no more than 19 times the average pay of full-time employees is an example of which strategic pay decision?

A. External competitiveness
B. Employee contributions
C. Corporate responsibility
D. Internal alignment

Accessibility: Keyboard Navigation
Difficulty: 2 Medium
Topic: The Pay Model Guides Strategic Pay Decisions

9. Comparisons on the forms of compensation used by other companies are part of _____.

A. internal alignment
B. external competitiveness
C. employee contributions
D. corporate responsibility

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: The Pay Model Guides Strategic Pay Decisions

10. The second step of developing a total compensation strategy is to:

A. implement the strategy.
B. assess total compensation implications.
C. estimate the cost of the strategy.
D. map the strategy.

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

11. Which of the following is the correct order of the steps in formulating a total compensation strategy?

A. Assess the strategy, implement the strategy, map the strategy, and reassess the strategy.
B. Assess the strategy, map the strategy, implement the strategy, and reassess the strategy.
C. Map the strategy, implement the strategy, assess the strategy, and reassess the strategy.
D. Map the strategy, assess the strategy, implement the strategy, and reassess the strategy.

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

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12. Based on the opinions of 10,000 U.S. workers, Hudson found that when given their choice of unconventional benefits, most employees would select _____.

A. more supplemental insurance
B. more job training
C. a more flexible work schedule
D. more personal days and family leave

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
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13. According to the Hudson survey, _____ is the single thing that would make 41 percent of the U.S. workers happier.

A. more personal days
B. flexible work schedule
C. more money
D. better health insurance

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

14. Which of the following statements regarding allowing employees a choice in their pay mix is NOT true?

A. Allowing employees their choice is difficult to manage
B. Allowing employees their choice is easy for competitor companies to imitate
C. Providing unlimited choices for employees to choose from is difficult to design
D. Providing too many choices can confuse people

Accessibility: Keyboard Navigation
Difficulty: 2 Medium
Topic: Developing a Total Compensation Strategy: Four Steps

15. Union preferences are a major factor in _____ a total compensation strategy.

A. implementing
B. reassessing
C. assessing
D. mapping

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

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16. In mapping a total compensation strategy, the question of how important compensation is in the overall HR strategy is part of _____.

A. objectives
B. internal alignment
C. external competitiveness
D. corporate responsibility

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

17. _____ refers to openness and communication about pay.

A. Transparency
B. Ownership
C. Prominence
D. Centrality

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

18. _____ is the measure of how important total compensation is in the overall HR strategy.

A. Competitiveness
B. Prominence
C. Centrality
D. Ownership

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

19. The role non-HR managers play in making pay decisions is called _____.

A. ownership
B. transparency
C. technology
D. decentralized decision-making

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

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20. Issues of transparency, technology, and choice are most closely associated with the _____ aspect of mapping a total compensation strategy.

A. objectives
B. management
C. employee contributions
D. internal alignment

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

21. Career growth, hierarchy, and flexible design are most closely associated with the _____ aspect of mapping a total compensation strategy.

A. objectives
B. internal alignment
C. external competitiveness
D. employee contributions

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

22. Which of the following is NOT included in a strategy map?

A. External competitiveness
B. Management
C. HR alignment
D. Employee contributions

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

23. Which of the following is NOT a test of whether a pay strategy is a source of competitive advantage?

A. Alignment test
B. Cost-effectiveness test
C. Differentiation test
D. Value-addition test

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Source of Competitive Advantage: Three Tests

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24. Which of the following tests of competitive advantage is probably the easiest test to pass?

A. Alignment test
B. Differentiation test
C. Integration test
D. Value-addition test

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Source of Competitive Advantage: Three Tests

25. The alignment test

A. is difficult to imitate.
B. is the most difficult test.
C. helps ensure passing the differentiation test.
D. becomes difficult if the differentiation test is not clear.

Accessibility: Keyboard Navigation
Difficulty: 2 Medium
Topic: Source of Competitive Advantage: Three Tests

26. Trying to measure an ROI for any compensation strategy implies that

A. it is possible to align and differentiate and still fail to add value.
B. people are "human capital," similar to other factors of production.
C. adding value is the most difficult test.
D. value created as a result of costs is difficult to specify.

Accessibility: Keyboard Navigation
Difficulty: 2 Medium
Topic: Source of Competitive Advantage: Three Tests

27. Which of the following statements is NOT true?

A. The effect of performance incentives depends on the context.
B. Embedding compensation strategy in HR strategy affects results.
C. Focusing only on one dimension of the pay strategy is a best practice.
D. The effect of paying more than competitors depends on the context.

Accessibility: Keyboard Navigation
Difficulty: 2 Medium
Topic: Guidance from the Evidence

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28. Research investigating high-performance workplaces found that performance-based pay _____ when combined with other high-performance practices.

A. improves attitudes and behaviors
B. increases the number of middle men required
C. reduces labor costs
D. has little effect on quality

Accessibility: Keyboard Navigation
Difficulty: 2 Medium
Topic: Virtuous and Vicious Circles

29. When organization performance declines

A. a virtuous circle may be created.
B. performance-based pay plans do not pay off.
C. managers must avoid changing the pay practices.
D. employee attrition rate declines considerably.

Accessibility: Keyboard Navigation
Difficulty: 2 Medium
Topic: Virtuous and Vicious Circles

30. Research shows that _____ will effectively shift an organization in a downward performance spiral to an upward one.

A. reinforcing performance-based pay
B. implementing team-based pay
C. improving work-life balance
D. it is unclear what compensation practices

Accessibility: Keyboard Navigation
Difficulty: 2 Medium
Topic: Virtuous and Vicious Circles

True / False Questions

31. Most organizations rely upon the market to determine how to pay their employees as compensation strategy is uncertain and complex.

FALSE

Accessibility: Keyboard Navigation

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Difficulty: 1 Easy
Topic: Similarities and Differences in Strategies

32. Strategy refers to the fundamental direction that an organization chooses.

TRUE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Strategic Choices

33. An organization defines its strategy through the tradeoffs it makes in choosing what to do and what not to do.

TRUE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Strategic Choices

34. At the corporate level, the fundamental strategic decision involves defining the role of the HR in compensation strategies.

FALSE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Strategic Choices

35. Customer-focused pay strategies are most likely to use market-based pay.

FALSE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Support Business Strategy

36. Compensation systems focusing on competitors' labor costs typically follow a cost-cutter strategy.

TRUE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Support Business Strategy

37. Although three separate compensation strategies may be identified, many companies use a combination of all three.

TRUE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Support Business Strategy

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38. Most firms do not have generic strategies but use a blend of cost and innovation.

TRUE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Support Business Strategy

39. Whole Foods' shared-fate philosophy means that executive salaries are at least 19 times the average pay of full-time employees.

FALSE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: The Pay Model Guides Strategic Pay Decisions

40. How an organization positions its total compensation against its competitors is part of external competitiveness strategic choices.

TRUE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: The Pay Model Guides Strategic Pay Decisions

41. All organizations that pay their employees have a compensation strategy even though it may not be stated or written.

TRUE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: The Pay Model Guides Strategic Pay Decisions

42. A compensation strategy should reflect an organization's values.

TRUE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

43. A major challenge in the design of future pay systems is how to better satisfy individual needs and preferences.

TRUE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

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44. Providing unlimited compensation choices to employees would meet with disapproval from the U.S. Internal Revenue Service.

TRUE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

45. Since unions represent such a small fraction of the labor force, their influence on pay decisions is insignificant.

FALSE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

46. Pay systems should fit well with other HR systems.

TRUE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

47. In a high-performance system, pay strategy always plays a lead role.

FALSE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps

48. Benchmarking and copying best practices does not lead to competitive advantage.

TRUE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Source of Competitive Advantage: Three Tests

49. Research on the effects of pay level shows that how employees are paid has no effect on the performance of the employees.

FALSE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Virtuous and Vicious Circles

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50. In a virtuous circle, a pay-for-performance strategy results in the improvement of performance.

TRUE

Accessibility: Keyboard Navigation
Difficulty: 1 Easy
Topic: Virtuous and Vicious Circles

Short Answer Questions

51. Define defenders and prospectors as referred to by Miles and Snow.

According to Miles and Snow, defenders are those firms that operate in stable markets and compete on cost, while prospectors are firms that are more focused on innovation and new markets.

Difficulty: 1 Easy
Topic: Support Business Strategy

52. Compensation systems can be tailored to general business strategies. List and explain these strategies.

Compensation systems can be tailored to three general business strategies:

i. The innovator stresses new products and short response time to market trends. A supporting compensation approach places less emphasis on evaluating skills and jobs and more emphasis on incentives designed to encourage innovations.
ii. The cost cutter's efficiency-focused strategy stresses doing more with less by minimizing costs, encouraging productivity increases, and specifying in greater detail exactly how jobs should be performed.
iii. The customer-focused business strategy stresses delighting customers and bases employee pay on how well they do this.

Difficulty: 2 Medium
Topic: Support Business Strategy

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53. Explain AMO theory.

Boxall and Purcell found an increasingly common "very basic theory of performance" being used, which they referred to as "AMO theory":

$P = f(A, M, O)$

P is performance, which is specified to be a function (*f*) of three factors: *A* is ability, *M* is motivation, and *O* is opportunity.
In other words, the AMO logic is that HR systems will be most effective when roles are designed to allow employees to be involved in decisions and have an opportunity to make an impact, when employee ability is developed through selective hiring and training and development, and when the compensation system motivates employees to act on their abilities and take advantage of the opportunity to make a difference.

Difficulty: 2 Medium
Topic: Support HR Strategy

54. What are the aspects of the alignment of pay strategy?

Alignment of the pay strategy includes three aspects:

i. align with the business strategy,
ii. align externally with the economic and sociopolitical conditions, and
iii. align internally within the overall HR system.

Difficulty: 1 Easy
Topic: Source of Competitive Advantage: Three Tests

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55. Write short notes on virtuous and vicious circles.

Virtuous circle - Thinking of pay as part of a circle suggests that performance-based pay works best when there is success to share. An organization whose profits or market share is increasing is able to pay larger bonuses and stock awards, which fairly improves employee attitudes and work behaviors, which in turn improves their performance. The circle gains upward momentum. Employees receive returns that compensate for the risks they take. And they behave like owners, since they are sharing in the organization's success.

Vicious circle - Circles can also gain momentum going downward to become a vicious circle. When organization performance declines, performance-based pay plans do not pay off; there are no bonuses, and the value of stock declines—with potentially negative effects on organization performance. Declining organization performance increases the risks facing employees—risks of still smaller bonuses, demotions, wage cuts, and even layoffs. Unless the increased risks are offset by larger returns, the risk-return imbalance will reinforce declining employee attitudes and speed the downward spiral.

Difficulty: 2 Medium
Topic: Virtuous and Vicious Circles

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