Compensation 13th edition Gerhart Test Bank

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Compensation, 13e **(Gerhart)**
Chapter 2 Strategy: The Totality of Decisions

1) A compensation system that focuses on competitors' labor costs is most closely associated with a(n) _____ strategy.
A) innovator
B) customer-focused
C) cost-cutter
D) differentiated

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

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

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

3) Flexible–generic job descriptions would most likely be used with a(n) _____ strategy.
A) innovator
B) customer-focused
C) differentiated
D) cost-cutter

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

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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(n):
A) customer-focused strategy.
B) cost-cutter strategy.
C) innovator strategy.
D) differentiation strategy.

Answer: A
Difficulty: 3 Hard
Topic: Support Business Strategy
Accessibility: Keyboard Navigation

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

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

6) A compensation system focusing on operational excellence is most closely associated with a(n) _____ strategy.
A) differentiated
B) cost-cutter
C) innovator
D) customer-focused

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

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7) In the formula for predicting performance, the component most closely related to compensation is
A) A.
B) M.
C) O.
D) C.

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

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

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

9) Comparisons based on the forms of compensation used by other companies are part of
A) internal alignment.
B) external competitiveness.
C) employee contributions.
D) corporate responsibility.

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

10) The second step in 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.

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

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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.

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

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.

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

13) According to the Hudson survey, which of the following is the single thing that would make 41 percent of U.S. workers happier?
A) More personal days
B) A flexible work schedule
C) More money
D) Better health insurance

Answer: C
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps
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14) _____ refers to a wide range of factors, including legal and regulatory requirements, cultural differences, changing workforce demographics, expectations, and the like.
A) Context
B) Prominence
C) Culture
D) Transparency

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

15) Union preferences are a major factor in _____ a total compensation strategy.
A) implementing
B) reassessing
C) assessing
D) mapping

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

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.

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

17) _____ refers to openness and communication about pay.
A) Transparency
B) Ownership
C) Prominence
D) Centrality

Answer: A
Difficulty: 1 Easy
Topic: Developing a Total Compensation Strategy: Four Steps
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18) _____ is the measure of how important total compensation is in the overall HR strategy.
A) Competitiveness
B) Prominence
C) Centrality
D) Ownership

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

19) The role non-HR managers play in making pay decisions is called
A) ownership.
B) transparency.
C) technology.
D) decentralized decision making.

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

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

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

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

Answer: B
Difficulty: 1 Easy
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22) Work/life balance is most closely associated with the _____ aspect of mapping a total compensation strategy.
A) external competitiveness
B) objectives
C) internal alignment
D) employee contributions

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

23) _____ is the key to attracting, retaining, and motivating employees with the abilities necessary to execute the business strategy and handle greater decision-making responsibilities.
A) Transparency
B) Compensation
C) Prominence
D) Culture

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

24) Which of the following tests of competitive advantage is probably the easiest test to pass?
A) The alignment test
B) The differentiation test
C) The integration test
D) The value-addition test

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

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.

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

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26) Trying to measure an ROI for any compensation strategy implies that:
A) it is possible to align and differentiate the compensation strategy 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.

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

27) Which of the following is a fundamental strategic choice at the corporate level?
A) What business should we be in?
B) How do we gain and sustain competitive advantage in this business?
C) Which dimension of the pay strategy should we focus on?
D) How should total compensation help this business gain and sustain competitive advantage?

Answer: A
Difficulty: 2 Medium
Topic: Strategic Choices
Accessibility: Keyboard Navigation

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

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

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 pay practices.
D) the employee attrition rate declines considerably.

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

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30) Research shows that _____ will effectively shift an organization in a downward performance spiral into 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

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

31) Embedding compensation strategy within the broader HR strategy affects results.

Answer: TRUE
Difficulty: 1 Easy
Topic: Guidance from the Evidence
Accessibility: Keyboard Navigation

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

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

33) An organization defines its strategy through the trade-offs it makes in choosing what to do and what not to do.

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

34) Compensation strategy, HR strategy, and business strategy ultimately seek to decrease costs or increase revenues, relative to competitors.

Answer: TRUE
Difficulty: 1 Easy
Topic: Support HR Strategy
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35) Customer-focused pay strategies are most likely to use market-based pay.

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

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

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

37) The innovator business strategy stresses on delighting customers and bases employee pay on how well they do this.

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

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

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

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

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

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

Answer: TRUE
Difficulty: 1 Easy
Topic: The Pay Model Guides Strategic Pay Decisions
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41) All organizations that pay their employees have a compensation strategy even though it may not be stated or written.

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

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

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

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

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

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

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

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

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

46) An organization whose profits or market share is increasing is able to pay larger bonuses and stock awards.

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

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

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

48) Compensation is often a company's largest controllable expense.

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

49) Declining organization performance increases the risks facing employees—risks of still smaller bonuses, demotions, wage cuts, and even layoffs.

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

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

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

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

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

Answer: 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
Accessibility: Keyboard Navigation

53) Explain AMO theory.

Answer: 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
Accessibility: Keyboard Navigation

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

Answer: Alignment of the pay strategy includes three aspects:

- Align with the business strategy
- Align externally with the economic and sociopolitical conditions
- 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.

Answer: 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
Accessibility: Keyboard Navigation

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