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CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

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

1) Smaller internal pay differences and larger internal pay differences can both be a "best" practice, depending on the context.
   - ◎ true
   - ◎ false

2) Strategy refers to the fundamental direction that an organization chooses.
   - ◎ true
   - ◎ false

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

4) Compensation strategy, HR strategy, and business strategy ultimately seek to decrease costs or increase revenues, relative to competitors.
   - ◎ true
   - ◎ false

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5) Customer-focused pay strategies are most likely to use market-based pay.
   - ◎ true
   - ◎ false

6) Compensation systems focusing on competitors' labor costs typically follow a cost-cutter strategy.
   - ◎ true
   - ◎ false

7) The innovator business strategy stresses on delighting customers and bases employee pay on how well they do this.
   - ◎ true
   - ◎ false

8) Most firms do not have generic strategies but use a blend of cost and innovation.
   - ◎ true
   - ◎ false

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9) The easiest way to develop and implement a pay strategy is to simply copy the strategy of another company, preferably a competitor.
   - ◎ true
   - ◎ false

10) How an organization positions its total compensation against its competitors is part of external competitiveness strategic choices.
   - ◎ true
   - ◎ false

11) All organizations that pay their employees have a compensation strategy even though it may not be stated or written.
   - ◎ true
   - ◎ false

12) A compensation strategy should reflect an organization's values.
   - ◎ true
   - ◎ false

13) A major challenge in the design of future pay systems is how to better satisfy individual needs and preferences.
   - ◎ true
   - ◎ false

14) Providing unlimited compensation choices to employees would meet with disapproval from the U.S. Internal Revenue Service.
   - ◎ true
   - ◎ false

15) Since unions represent such a small fraction of the labor force, their influence on pay decisions is insignificant.
   - ◎ true
   - ◎ false

16) An organization whose profits or market share is increasing is able to pay larger bonuses and stock awards.
   - ◎ true
   - ◎ false

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17) In a high-performance system, pay strategy always plays a lead role.
- ◎ true
- ◎ false

18) Compensation is often a company's largest controllable expense.
- ◎ true
- ◎ false

19) Declining organization performance increases the risks facing employees—risks of still smaller bonuses, demotions, wage cuts, and even layoffs.
- ◎ true
- ◎ false

20) In a virtuous circle, a pay-for-performance strategy results in the improvement of performance.
- ◎ true
- ◎ false

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

21) 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

22) 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

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

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24) Mich Incorporated, 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.

25) 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

26) 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

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27) Your new fledgling company has innovation as the main objective and the internal alignment will be a minimized hierarchy. Looking at just these two dimensions of the compensation strategy, your new company will mostly resemble which company?
A) Nucor
B) Google
C) Starbuck's
D) Merrill Lynch

28) 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

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29) 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.

30) Which of the following statements is true of compensation strategies?
- A) Compensation strategies may differ between industries but fail to differ between companies in the same industry.
- B) Compensation strategies are static and only rarely evolve over time.
- C) A simple strategy of "let the market decide our compensation" may work internationally, but not domestically.
- D) Compensation strategies may differ within a company, especially one with a variety of business units.

31) When interpreting research evidence concerning compensation strategy, it is thought that embedding compensation strategy within the broader _____ affects results.
- A) business strategy
- B) HR strategy
- C) business unit strategies
- D) corporate strategy

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32) 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.

33) 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

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34) _____ 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

35) Choosing pay techniques to fit a strategy is a major factor in _____ a total compensation strategy.
A) assessing
B) reassessing
C) implementing
D) mapping

36) 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.

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

38) _____ is the measure of how important total compensation is in the overall HR strategy.
A) Competitiveness
B) Prominence
C) Centrality
D) Ownership

39) 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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40) 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

41) 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

42) 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

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43) _____ 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

44) 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

45) 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.

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46) 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.

47) 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?

48) 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

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49) 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.

50) 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

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SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

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.

53) Explain AMO theory.

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54) List and briefly explain the four steps in developing a total compensation strategy.

55) Write short explanations of virtuous and vicious circles.

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Answer Key

Test name: Chapter 02

1) TRUE
2) TRUE
3) TRUE
4) TRUE
5) FALSE
6) TRUE
7) FALSE
8) TRUE
9) FALSE
10) TRUE
11) TRUE
12) TRUE
13) TRUE
14) TRUE
15) FALSE
16) TRUE
17) FALSE
18) TRUE
19) TRUE
20) TRUE
21) C
22) A
23) A
24) A
25) C
26) B
27) B
28) D
29) B
30) D
31) B
32) C
33) C
34) A
35) C
36) A
37) A

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38) B
39) A
40) B
41) B
42) A
43) B
44) A
45) C
46) B
47) A
48) A
49) B
50) D
51) Short 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.

52) Short Answer
Compensation systems can be tailored to three general business strategies:

1. 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.
2. 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.
3. The customer-focused business strategy stresses delighting customers and bases employee pay on how well they do this.

53) Short 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.

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54) Short Answer
Developing a compensation strategy involves four simple steps: assess, map, implement, and reassess. While the steps are simple, executing them is complex.

- Assess total compensation implications by examining business strategy, competitive dynamics, HR strategy, the company's culture and values, social and political context, employee and union needs, and other HR systems.
- Map a total compensation strategy by examining objectives and the four policy choices of alignment, competitiveness, contributions, and management.
- Implement the pay strategy by designing a system to translate the strategy into action and choose techniques to fit the strategy.
- Routinely reassess the strategy by realigning the pay strategy as conditions change or as strategy changes.

55) Short 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.

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