CHAPTER 1

Strategic Compensation: A Component of Human Resource Systems

## **Learning Objectives**

**1.** Describe what compensation is and give at least three examples of core compensation practices and at least three examples of employee benefits practices.

**2.** Summarize at least two historical events in the evolution of compensation practice leading to the current strategic compensation era.

**3.** Discuss at least two differences between strategic and tactical compensation.

**4.** Name and summarize the goals of compensation professionals.

**5**. Identify the stakeholders of the compensation and summarize their stake in the work compensation professionals perform.

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Lecture Outline

I. Overview

A. Manpower Planning

1. Focus was on effective deployment of employees

2. Goal was to achieve maximum productivity per employee

B. Personnel Management

1. Evolved due to government regulations concerning:

a. Payroll taxes

b. Minimum wage laws

c. Antidiscrimination laws

2. New responsibilities include:

a. Administration

b. Support

c. Consultation

d. Quality human resources system design

C. HR Professionals

1. Their role has evolved from compliance to consultation and system design

2. They help companies use compensation to attract and retain quality employees

3. They switch the role of compensation practices from controlling managers to facilitating their success

4. They use skills and creativity to apply fundamentals to build management tools that fit within the context of their business

5. They teach managers how to use those tools to maximize their employees’ potential

6. They become facilitators

7. Their transformation from compensation consultant to master compensation carpenter requires that:

a. A solid foundation in a company’s business environment, strategy, and organizational structure, processes, and culture should exist

b. A manager’s toolbox should contain the tools required to run the business

c. Managers should be taught how to use each tool

II. Exploring and Defining the Compensation Context

A. What Is Compensation?

1. Intrinsic and extrinsic rewards employees receive for performing their jobs

a. Intrinsic compensation: reflects employees’ psychological mindsets that result from performing their jobs

b. Extrinsic compensation: includes both monetary and nonmonetary rewards for:

i. Obtaining certain job performance levels

ii. Acquiring new skills and knowledge

2. Monetary compensation represents core compensation

3. Nonmonetary rewards (also known as employee benefits) include:

a. Protection programs (e.g., medical insurance)

b. Paid time off (e.g., vacations)

c. Services (e.g., daycare assistance)

B. Core Compensation

1. Six types:

a. Base pay

b. Cost-of-living adjustments

c. Seniority pay

d. Merit pay

e. Incentive pay

f. Pay-for-knowledge and/or skill-based pay

2. Base pay (more in Chapter 7)

a. Includes:

i. Hourly pay wage

ii. Salary

c. Is recurring

d. Is governed by Fair Labor Standards Act of 1938 (more in Chapter 2)

e. In 2012, the average weekly rate for workers was $818.[[1]](#endnote-2) On an annual basis, this figure translates to $42,537 (based on a 40-hour work week over 52 calendar weeks)

f. Is influenced by four compensable factors:

i. An employee’s skill level

ii. An employee’s effort

iii. An employee’s level of responsibility

iv. The severity of the working conditions (more in Chapters 2 and 6)

g. Because of the Equal Pay Act of 1963, compensable factors are used to:

i. Determine internal consistency (more in chapter 6)

ii. Determine market competitiveness (more in chapter 7)

iii. Recognize individual contributions (more in chapter 8)

h. Is adjusted periodically for:

i. Cost-of-living increases

ii. Differences in an employee’s job performance

iii. Increases in an employee’s skill level or job knowledge

3. Includes cost-of-living adjustments (COLAs) which are:

a. Base pay adjustments tied to the consumer price index (CPI) and inflation, which is used to set new hires’ pay

b. The typical COLA has been 2-3% annually in recent years

b. Designed to enable employees to maintain their purchasing power and standard of living

c. Most common where unions represent workers

4. Seniority pay is:

a. Based on an employee’s length of service and increased value to the employer (more in Chapter 3)

b. Designed according to the human capital theory: employees will become more productive as they refine existing skills and acquire new skills and knowledge through length of service

5. Merit pay is:

a. Permanent base pay increases granted because of job performance

b. Designed to reward exemplary performance, to motivate future performance, and to retain valued employees

6. Incentive pay is:

a. Also known as variable pay

b. Used for attaining predetermined work objectives

c. Fluctuated according to:

i. A pre-established formula

ii. Individual or group goals

iii. Company earnings

7. Pay-for-knowledge and skill-based pay

a. Pay-for-knowledge plans reward managerial, service, or professional workers for successfully learning specific curricula (more in Chapter 5)

b. Skill-based pay is used mostly for employees who perform physical work and increases as workers master new skills (more in Chapter 5)

c. Reward employees for the range, depth, and types of knowledge and skills they are capable of applying productively to their jobs

d. Reward employees for their potential for making meaningful contributions on the job

C. Employee Benefits

1. Represent nonmonetary rewards

a. Pay for time-not-worked

b. Employee services

c. Protection programs

2. Categorized

a. Legally required benefits (more in Chapter 11)

b. Discretionary benefits (more in Chapters 9 and 10)

3. Discretionary benefits

a. Three broad categories

i. Protection program

ii. Pay for time-not-worked

iii. Services (more in Chapter 10)

b. Protection programs

i. Provide family benefits

ii. Promote health

iii. Guard against income loss caused by unemployment, disability, and serious illness

c. Pay for time-not-worked: provide employees time off with pay like

i. Vacation

ii. Medical leave

d. Services: provide enhancements to employees and their families like:

i. Tuition reimbursement

ii. Daycare assistance

4. As of September 2012, employers spent an average of $30.84 per employee per hour worked, with only $21.35 of that going to actual wages

5. Legally-required benefits

a. Are protection programs that attempt to:

i. Promote worker safety and health

ii. Maintain family income streams

b. Assist families in crisis

c. Provide assistance when employee is:

i. Disabled

ii. Unemployed

d. Main, relevant laws include (more in Chapter 11):

i. Social Security Act of 1935

ii. Family and Medical Leave Act of 1993

III. A Historical Perspective on Compensation: The Road toward Strategic Compensation

A. Causes of Changes in Human Resources Practices

1. Industrial Revolution in the early 1900s

2. Positions in agrarian and small craft businesses giving way to large-scale manufacturing jobs

a. Each employee is now just one of many for one business

b. Less self-employed and family-owned work opportunities

3. Gave rise to divisions in labor

4. Necessitated activities referred to as personnel administration:

a. Hiring/terminating

b. Training

c. Setting compensation benefits

d. Handling grievances

B. Initial Emphasis on Personnel Administration

1. Responsibilities

a. Controlling labor costs

b. Management control over labor

2. Base management control over labor on scientific management practices that:

a. Gave rise to individual incentive pay

b. Promoted labor cost control by replacing inefficient production methods with more efficient methods, using:

i. Time-and-motion studies

ii. Job analysis

c. Use time and motion studies to analyze the time it takes employees to complete their assigned work

d. Use job analysis for gathering, documenting, and analyzing information to describe jobs

e. Gave rise to factory-related piecework plans where:

i. Employee compensation is determined by units produced per time span

ii. An individual’s hourly production is compared to an objective output standard

iii. Incentives for exceeding standards is rewarded

3. Welfare practices were originated to:

a. Provide comfort and improvement, intellectual or social, to employees, over and above wages paid, which is not a necessity of the industry nor required by law

b. Discourage unionization

c. Promote effective management

d. Enhance worker productivity

4. Under welfare practices, the number and types of compensation benefits offered varied per business, may have included:

a. Use of libraries and recreational facilities

b. Educational assistance

c. Medical insurance

5. Government influences include:

a. Implementing legislation to fair treatment by making employment-related decisions according to job performance

b. Requiring extensive documentation

C. From Personnel Administration to Human Resources

1. Began in the 1980s

2. Went from mainly an administrative function to designing and implementing compensation programs that contribute to a company’s competitive advantage

3. Competitive advantage: refers to a company’s ability to maintain market share and profitability over a sustained period of several years

4. Employees now seen as a key resource instead of just an expense

5. Major factors include:

a. Rapid technological changes

i. Automation

ii. Employee’s expanded range of required tasks, knowledge, and responsibilities

b. Overseas competition

i. Requires employers to hire and retain employees with leading-edge skills

ii. Requires employees with broader, more in-depth work related knowledge

iii. Research suggests that foreign workers are more productive than U.S. workers

D. Compensation Practices That Contribute to Competitive Advantage

1. Titles

a. Merit pay programs

b. Incentive pay practices

c. Pay-for-knowledge and skill-based pay programs

d. Executive compensation (more in Chapter 12)

2. Merit pay programs reinforce excellent performance by awarding pay raises commensurably with performance attainments

3. Incentive pay practices award one-time pay increases once work objectives have been attained

4. Pay-for-knowledge and skill-based pay programs allow employees to acquire the knowledge and skills to remain productive

5. Employees use discretionary benefits to increase worker productivity

**Quick Note: Just as prior economic shifts and governmental regulations have caused alterations in the field of compensation administration, the recessions in the first part of the 21st century might well lead to future dramatic shifts to which compensation managers will need to adapt.**

IV. Strategic versus Tactical Decisions

A. Strategic Compensation Defined

1. Strategic decisions guide the activities of a company in the market

2. Tactical decisions support the fulfillment of strategic decisions

3. Strategic compensation consists of two categories

a. Strategic management

b. Strategic planning

4. Strategic management

a. Entails making a series of judgments, under uncertainty, which companies direct toward achieving specific goals

b. Strategy formulation based on environmental scanning activities

c. Environmental scanning is used to discern between threats and opportunities

5. Strategic planning

a. Supports business objectives

b. Executives communicate business objectives through competitive strategy statements

c. Competitive strategy: planned use of company resources—technology, capital, and human in order to promote and sustain competitive advantage

d. Has a time span that generally exceeds two years

6. Human resource strategies: use of multiple HR practices

a. Compensation and benefits executives work with the lead HR executives and the company’s chief budget officer to prepare total compensation strategies

b. Total compensation strategies describe the use of compensation and benefits practices that support both HR strategies and competitive strategies

Example: Competitive Strategy

• Eli Lilly

• Leading, innovation-driven corporation is developing a growing portfolio of pharmaceutical products by applying the latest research

• Creates value for all stakeholders by accelerating the flow of innovative medicines

• Provides answers through medicines and information for the world’s most urgent medical needs

• Total compensation strategies describe the use of compensation and benefits practices that support both human resources strategies and competitive strategies

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| Example: Strategic Decisions   * Mercedes-Benz—has established a reputation as being a high-end luxury car maker * Prices generally $50,000 or more per automobile * Target market are those 40 years and older * Mercedes-Benz introduced a new car, outside their established reputation * $25,000 to $30,000 price range * Target market is 20 to 30 year old age range * Seeking opportunity to establish brand loyalty * Mercedes-Benz was unsuccessful in attracting this younger market segment, and ultimately decided to discontinue this new model after only a few short years. |

B. Competitive Strategy Choices

1. Kinds

a. Lowest cost strategy

b. Differentiation strategy

2. Lowest cost (cost leadership) strategy

a. Focuses on gaining competitive advantage by:

i. Being the lowest cost producer within the marketplace

ii. Selling goods or services at a price advantage relative to the industry average

b. Requires aggressive construction of efficient-scale facilities, and vigorous pursuit of cost minimization in areas like:

i. Operations

ii. Marketing

iii. HR

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| Example: Ryanair   * Pursues lowest cost by reducing operating costs * Aircraft training and maintenance costs minimized because they use only one aircraft: Boeing 737s * Seating cost and labor costs minimized because seats do not recline and seat-back pockets stowed under the seat * Includes one toilet to make room for additional seats * Baggage handling costs are reduced because passengers are required to carry their luggage |

3. Differentiation strategy is:

a. A competitive strategy where companies develop products or services that are unique from those of its competition

b. Used by companies to make themselves unique in many ways, such as:

i. Design or brand image

ii. Use of technology

iii. Providing additional features

iv. Providing better customer service

v. Offering their product or service at a better price, and so on

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| Example: Differentiation Strategies: Brand Image and Price Premiums   * P&G Corporation (manufactures, markets, and distributes consumer goods products including dog food) * Two product lines: * Iams: Offers nutritionally well-balanced food for dogs that is made from quality ingredients. Iams is considered a super-premium product line * Eukanuba: An ultra-premium line that contains more chicken and vital nutrients that promotes shiny and healthy coats. P&G charges premium prices for this line which allows it to invest more in research and product development |

C. Tactical Decisions That Support the Firm’s Competitive Strategy

1. Include HR tactics and practices in other functional areas that include:

a. Manufacturing

b. Engineering

c. Research and development

d. Management information systems

e. Human resources

f. Marketing

2. HR practices support competitive advantage through energizing employees to perform the jobs for which they are hired

3. Tactics in other functional areas: might help determine which functional capabilities are most crucial to maintaining a competitive advantage

4. Employee roles associated with competitive strategy: HR professionals must decide which employee roles are instrumental to the attainment of competitive strategies

5. In a company that uses the lowest cost strategy

a. Might include reducing the output cost per employee

b. It is generally used for jobs that:

i. Include repetitive and predictable behaviors

ii. Have a relatively short-term focus

iii. Require autonomous or individual activity

iv. Involve a high concern for quantity of output

6. For companies using differentiation strategies

a. The main emphasis is generally not on increasing employee productivity

b. Employees usually have jobs that require:

i. Highly creative behaviors

ii. A relatively long-term focus

iii. Cooperation and independence

iv. A greater degree of risk-taking

**V. Compensation Professionals’ Goals**

A. How HR Professionals Fit into the Corporate Hierarchy

1. Corporations categorize employees in two main functional areas

a. Line employees

b. Staff employees

2. Line employees

a. Are workers who are directly involved in producing a company’s goods or services

b. Might include:

i. Assemblers

ii. Salespeople

iii. Production workers

3. Staff employees

a. Are workers whose job it is to support the line functions

b. Might include:

i. Human resources professionals

ii. Accountants

c. Promote the effective use of all employees

4. HR’s role:

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| Example: HR’s Role   * A quotation from Jay Hannah of BancFirst Corporation. **(PowerPoint 1-14)** * “The HR department is the source and keeper of critical information, which is key in today’s workplace. With the information they provide, we in turn can build and design strategies to hire and retain the best workforce possible. And this may sound cliché, but it’s very true—the real competitive advantage is our company’s human resources.” |

5. In addition to compensation, HR practices include:

a. Recruitment

b. Selection

c. Performance appraisal

d. Training

e. Career development

f. Labor-management relations

g. Employment termination

h. Managing HR within the context of legislation

6. Traditionally HR was considered an administrative or staff function because HR’s financial and market value was not yet easily quantifiable

B. How the Compensation Function Fits into HR Departments

1. Compensation, recruitment, and selection

a. Ways companies attract job candidates

i. Career opportunities

ii. Training opportunities

iii. Reputation

iv. Location

v. Compensation

b. Compensation benefits are used to sign qualified candidates by (more in Chapter 7):

i. Communicating positive features of compensation programs: Core and fringe

ii. Offering signing bonuses

2. Compensation and performance appraisal

a. Is key to effective merit pay programs

b. Compensation rewards must be tied to attainment of:

i. Performance goals

ii. Quality standards

c. Be realistic

d. Employees must perceive a strong relationship between attaining performance standards and pay increases

e. Successful administration of merit pay programs depends on:

i. Sound performance appraisal practices

ii. The HR professional’s skills in designing and implementing the program

3. Compensation and training

a. Successful pay-for-knowledge plans depend upon a company’s ability to develop and implement systematic training programs that:

i. Should allow employees to learn the skills needed to increase their pay

ii. Should be designed to allow employees to develop the skills necessary to teach and coach other employees at lower skill levels

b. Companies implementing pay-for-knowledge plans typically:

i. Increase the amount of classroom and on-the-job training

ii. Make training necessary, rather than optional

iii. Allow all employees equal access to the training for acquiring higher-level skills

4. Compensation and career development

a. Two ways

i. Lateral movement

ii. Upward (vertical) movement

b. Lateral

i. Employee moves across a company’s hierarchy

ii. Example: the supervisor of payroll clerks moving to the supervisor of inventory clerks

c. Upward (Vertical)

i. An employee maintains focus in one functional area

ii. Takes on greater responsibility in that area

iii. Example: payroll clerk, promoted to supervisor, promoted to payroll administrator

5. Compensation and labor-management relations (with unions)

1. Companies grant COLAs (more in Chapter 2)

2. Companies establish base pay on seniority pay (more in Chapter 4)

6. Compensation and employment termination

a. Two types

i. Involuntary

ii. Voluntary

b. Involuntary

i. Terminations

ii. Layoffs

c. Terminations

i. Company severs employment agreement for poor job performance, insubordination, and violation of work rules

ii. Some companies offer severance pay

iii. Some companies offer to continue medical insurance

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| Example: Severance Pay at Delta Airlines   * Closed Boston reservation center * Offered employees only six weeks severance pay, regardless of seniority |

d. Layoffs

i. Occur when a company severs an employment agreement because of reduced business activity, plant closings, or relocations

ii. Companies generally provide outplacement counseling

e. Voluntary terminations

i. Are initiated by employees

ii. Usually occur when employees choose to work elsewhere or retire

f. Might include early retirement, which might include incentives like:

i. Increased retirement income

ii. Continued medical insurance coverage

g. Retirement income programs

i. Are company-sponsored pensions

ii. Might include early retirement programs to reduce workforce size and trim compensation expenditures

iii. Might include early retirement programs that contain incentives to encourage highly paid employees with substantial seniority to retire

7. Compensation and legislation

a. Laws were enacted to:

i. Establish acceptable employment practices

ii. Protect employees’ rights

b. Are generally based on four main themes

i. Income continuity, safety, and work hours

ii. Pay discrimination

iii. Accommodation of disabilities and family needs

iv. Prevailing wage laws

c. Relevant laws include:

i. Fair Labor Standards Act of 1938

ii. Equal Pay Act of 1963

iii. Civil Rights Act of 1964

iv. Pregnancy Discrimination Act of 1978

v. Americans with Disabilities Act of 1990 (amended in 2008)

vi. Family and Medical Leave Act of 1993

vii. Davis–Bacon Act of 1931

C. Compensation Department’s Main Goals

1. Goals include:

a. Internal consistency

b. Market competitiveness

c. Recognizing individual contributions

2. Internal consistency

a. Refers to compensation systems that clearly define the relative value of each job among all the jobs within a company

b. Job structures (hierarchy) formally recognize differences in job characteristics

c. Is based on the principle that employees working at jobs that require greater qualifications, more responsibilities, and/or more complex job duties should be paid more

d. Is achieved using:

i. Job analysis

ii. Job evaluation

e. Job analysis

i. Is a systematic process for gathering, documenting, and analyzing information in order to describe jobs

ii. Describes the content or job duties, worker requirements, and sometimes the job context or working conditions

f. Job evaluation

i. Is used to systematically recognize differences in the relative worth among a set of jobs

ii. Is used to establish pay differentials

iii. Partly reflects the values and priorities that management places on various positions

g. The results of a job analysis and a job evaluation are used to establish pay differentials for virtually all positions within the company

3. Market competitiveness

a. Market-competitive pay systems

i. Represent companies’ compensation policies that fit with their business objectives

ii. Play a significant role in attracting and retaining the most qualified employees

iii. Are based on market surveys and compensation surveys

b. Strategic analyses

i. Entail an examination of a company’s external market context and internal factors

ii. External market context factors include:

* + - * Industry profile
      * Information about competitors
      * Long-term growth prospects

iii. Internal market factors include:

* + - * A company’s financial condition
      * A company’s functional capabilities

4. Recognizing Individual Contributions

a. Three main methods

i. Pay structures

ii. Pay grades

iii. Pay ranges

b Pay structures

i. Represent pay rate differences for jobs of unequal worth

ii. Are the framework for recognizing differences in employee contributions, such as credentials, job knowledge, and job performance

iii. Should define the boundaries for recognizing employee contributions

iv. Should promote the retention of valued employees

c. Pay Grades

i. Are a structural feature of pay structures

ii. Group jobs for pay policy application

iii. Are based on similar compensable factors and value

iv. Cannot use a single formula to determine what is sufficiently similar in terms of content and value to warrant grouping for all jobs

d. Pay ranges

i. Are a structural feature of pay structures

ii. Include midpoint, minimum, and maximum pay rates

iii. Build upon pay grades.

VI. Stakeholders of the Compensation System

A. Definition

1. Are individuals or entities that are directly affected by a company’s compensation practices

2. The success of HR departments depends on how they will serve various stakeholders which have:

a. Their own set of expectations regarding the personnel departments’ activities

b. Their own standards for effective performance

c. Their own methods for assessing the extent to which the department’s activities meets their own expectations

3. Multiple stakeholders often compete for the attention and a priority status from the HR department

B. Stakeholders include:

1. Employees

2. Line managers

3. Executives

4. Unions

5. U.S. government

C. Employees rely oncompensation professionals to:

1. Develop and implement systematic training programs

2. Be kept informed of:

a. Available training

b. Connections between the training and their pay

c. Changes in compensation practices

d. Advancement opportunities

3. Offer discretionary benefits that provide:

a. Income protection

b. Paid time off

c. Services

D. Line managers rely oncompensation professionals to:

1. Use their knowledge of relevant laws to help them make sound compensation judgments

2. Advise them on establishing pay differentials

3. Train them how to properly evaluate jobs

E. Executives rely oncompensation professionals to:

1. Develop and manage sound compensation systems

2. Insure the company’s practices are:

a. Legal

b. Sufficiently attractive to recruit and retain

c. Cost effective

F. Unions rely oncompensation professionals to:

1. Abide by their collective bargaining agreements

2. Insure they get their COLA adjustments and seniority pay

G. U.S. government requires compensation professionals to:

1. Keep updated and comply with all employment legislation

2. Demonstrate that alleged discriminatory pay practices are a business necessity (more in Chapter 2)

3. Demonstrate that alleged discriminatory pay practices are not discriminatory

**VII. Discussion Questions and Suggested Answers**

* 1. **Define compensation.**

Compensation represents both the intrinsic and extrinsic rewards employees receive for performing their jobs. Together, both intrinsic and extrinsic compensation describes a company’s total compensation level. Intrinsic compensation reflects an employee’s psychological mindsets that result from performing his or her job. Extrinsic compensation includes both monetary and nonmonetary rewards.

* 1. **Identify two companies—one that you believe pursues a lowest-cost strategy and another that pursues a differentiation strategy. Relying on personal knowledge, company annual reports, or articles in newspapers and business periodicals, discuss these companies’ competitive strategies.**

The cost leadership or lowest-cost strategy focuses on gaining competitive advantage by being the lowest-cost producer of a product or service within the marketplace, while selling the product or service at a price advantage relative to the industry average. Ryanair is an excellent illustration of an organization that pursues a lowest-cost strategy because its management successfully reduced operating costs. At least two noteworthy decisions have contributed to Ryanair’s goals. First, Ryanair’s training and aircraft maintenance costs are lower than similar competitor’s costs because the airline uses only Boeing 737 aircraft. Ryanair enjoys substantial cost savings because it does not need to use different curricula for training flight attendants, mechanics, and pilots to learn about procedures specific to different aircraft models. Second, newer aircraft sport seats that do not recline, have seat-back pockets, or life jackets stowed under the seat. These cost less and also allow service personnel to clean aircraft more quickly, saving on labor costs. Third, Ryanair airplanes include one toilet to make room for additional passenger seats. Fourth, passengers are required to carry their luggage to the plane, reducing the cost of baggage handling.

Differentiation strategies are used to develop products or services that are unique from those of competitors. Differentiation strategies can take many forms, including design or brand image, technology, features, customer service, and price. P&G Corporation successfully pursues a differentiation strategy based on brand image and price premiums. The company offers two separate dog food lines—Iams, a super-premium line that is nutritionally well balanced for dogs and uses high quality ingredients and Eukanuba, which is an ultra-premium line that contains more chicken and vital nutrients than the Iams line, as well as additional fatty acids. Together, Iams and Eukanuba appeal to a substantial set of dog owners. The Iams Company distinguishes Eukanuba from Iams by claiming that Eukanuba is “Extraordinary Nutrition.” The Eukanuba slogan is the company’s basis for brand image.

* 1. **Describe your reaction to the following statement: compensation has no bearing on a company’s performance.**

Student answers may vary, but a typical response might be: This statement is false because the very essence of a company’s performance is based on intrinsic and extrinsic compensation. The psychological states of employees that results from performing their jobs has a direct correlation to the performance of a company, just as the monetary and nonmonetary rewards given to employees affects their overall willingness to perform in a more adequate and refined manner.

* 1. **Are the three main goals of compensation departments equally important, or do you believe that they differ in importance? Give your rationale.**

Compensation professionals promote effective compensation systems by meeting important goals: internal consistency, market competitiveness, and recognition of individual contributions. Internally consistent compensation systems clearly define the relative value of each job among all jobs within a company. Market competitiveness plays a significant role in attracting and retaining the most qualified employees. It entails the examination of company external and internal context factors, as well as collecting and analyzing competitive compensation data. Recognizing individual contributors requires pay structures that have pay rate differences for jobs of unequal worth and the framework for recognizing differences in employee contributions.

VIII. End of Chapter Case; Instructor Notes, and Questions and Suggested Student Responses

Case Name: Competitive Strategy at Sportsman Shoes

**Instructor Notes**

The human resource planning process follows the company’s strategic planning process. In this case, the company is shifting from a low-cost strategy to a differentiation strategy. Under the low-cost strategy, human resource practices focused on controlling costs and working to hire and retain workers focused on efficiency and productivity. The differentiation strategy will require some employees with a different skill set. Certain functions will need high levels of creativity and innovation. Human resource practices must shift to support these needs by attracting the right talent, and motivating the right behaviors to produce shoes for the new niche markets.

**Questions and Suggested Student Responses:**

* 1. **Following Sportsman’s shift in competitive strategy, what are some considerations for the company’s human resource management practices?**

Sportsman must focus on attracting and retaining employees in functional areas such as product development and operations. The focus of employees as a whole must shift for this new competitive environment. Under the low-cost strategy, human resource management practices focused on reducing output costs per employee. In the new environment, the company must emphasized cooperation and interdependent behavior. As a result, training will be necessary to prepare employees to be successful in the new environment. Workers in all areas will need to be open to change and be willing to take risks and human resource management practices will need to be aligned with these needs.

* 1. **What kind of challenges will Sportsman face specifically in the area of compensation?**

The new hires the company will need to make will create some compensation challenges. The company will need to make compensation competitive in the market place to make sure that they are able to attract the new talent needed. However, they must also keep compensation internally consistent at the same time. The company will need to examine its entire compensation strategy (including benefits and incentive pay) to make sure it is aligned with the company’s new goals.

**MYLAB QUESTIONS**

* 1. **What is merit pay? Explain the role of performance appraisals in merit pay programs.**

Answer: According to merit pay programs, employees' compensation should be determined by differences in job performance. Under merit pay programs, employees get permanent increases to their base pay based on their performance. Performance appraisals are key issue in merit pay programs. In order to have a successful merit pay program, employees should be able to see the link between their performance and pay increases. Merit pay systems require specific performance appraisal approaches, and choosing, designing, and implementing such plans are crucial for the success of merit pay programs.

* 1. **What is pay-for-knowledge plan? Explain the role of training in pay-for-knowledge plans.**

Answer: Pay-for-knowledge programs reward managerial, service, or professional workers for successfully learning specific curricula. This type of pay systems reward employees for the range, depth, and types of knowledge they are capable of applying to their jobs. Designing and implementing training programs are crucial in the success of pay-for-knowledge programs. Through training programs, employees learn the necessary skills and knowledge for performing their job, and this in turn increases their pay. In this type of pay systems, training is necessary rather than optional.

**IX.** Additional Case from the MyManagementLab Website; Instructor Notes and Questions and Suggested Student Responses

**Case Name: Is It Time to Hire a Compensation Expert?**

**Instructor Notes**

Organizations are challenged to ensure the right number of staff positions relative to line positions. As a company grows, their need for additional human resources staff will likely grow as well. Depending on the company’s goals, different types of human resources expertise may help the organization operate more effectively in order to obtain those goals. Most organizations will hire a recruiter to help acquire new talent for the organization. But, with growth, the compensation-related issues the company faces also grows. Compensation expertise can benefit a growing company by creating a pay structure and competitive benefits that allows the company to attract and retain employees to support future company growth.

**Questions and Suggested Student Responses:**

* 1. **Do you think EasySpa would benefit from hiring a compensation professional? How?**

As the organization plans continued growth, there are many benefits that a compensation professional can provide. Having compensation expertise can help support other practices such as recruitment. By designing a compensation structure that is attractive to candidates, EasySpa may be able to better recruit talent. Further, the pay structure can help hiring managers more effectively set pay rates for new hires. A compensation professional can also help design a benefits package that is both attractive and cost efficient.

* 1. **How can Jay convince the CEO to hire a compensation professional?**

A compensation professional can better structure the company’s compensation by ensuring pay levels are appropriate through ensuring internal consistency in pay while keeping pay levels competitive in the marketplace. Further, a compensation professional may be able to design incentive pay programs to motivate certain groups of employees. By doing so, the company can ensure that funds spent on labor are used effectively. Further, the company may be able to realize savings in benefit costs by using an expert to design the benefits package. Finally, as a key stakeholder in the success of the company, the CEO benefits from the expertise of a compensation professional because they can ensure the company is complying with relevant employment laws.

1. U.S. Bureau of Labor Statistics (2013). *The Employment Situation – January 2013* (USDL 13-0144). Available: *www.bls.gov*, accessed March 3, 2013. [↑](#endnote-ref-2)