

**TEST BANK**

**COMPENSATION**

ELEVENTH EDITION

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## Chapter 2: Strategy: The Totality of Decisions

### Multiple Choice Questions

1. (p. 39) “Everyone wears several hats” and “succeed by working together” are examples of which of the following?  
A. Objectives  
**B. Internal alignment**  
C. Externally competitive  
D. Employee contributions

Difficulty: Medium

2. (p. 41) “Putting some skin in the game” refers to:  
A. employees paid entirely on commission  
B. being paid as a contract vs. a regular employee  
**C. below market base pay with stock ownership**  
D. above market base pay with low benefits

Difficulty: Medium

3. (p. 41) A compensation system that pays employees such that “some skin is in the game” means that  
**A. a portion of employee pay is at risk**  
B. employers risk high labor costs  
C. level of base pay is below competitors  
D. base pay is low while benefits are generous

Difficulty: Medium

4. (p. 41) \_\_\_\_\_ changed its compensation strategy as the company grew and matured?  
A. SAS  
B. Google  
**C. Microsoft**  
D. CNET

Difficulty: Medium

5. (p. 42) At the corporate level, a strategic compensation perspective addresses the question:
- A.** What business should we be in?
  - B. What is our desired return on assets?
  - C. How can our total compensation help gain competitive advantage to achieve organization success?
  - D. How can job analysis help us select the most appropriate certain compensation technique(s) for our organization?

Difficulty: Medium

6. (p. 42) What level of strategy is the question “how do we gain competitive advantage”?
- A. Corporate
  - B.** Business unit
  - C. HR
  - D. Departmental

Difficulty: Medium

7. (p. 42) The social, competitive and regulatory environment factors are most important for which type of strategy?
- A. Corporate
  - B. Business unit
  - C. HR
  - D.** Strategic compensation

Difficulty: Medium

8. (p. 42) Which of the following relationships within a pay system is accurate?
- A.** Compensation objectives shape pay policies.
  - B. Pay policies determine the objectives of the pay system.
  - C. Organization strategies determine employee pay needs.
  - D. Pay policies form the compensation strategy of the organization.

Difficulty: Medium

9. (p. 43) A focus on competitor’s costs is most closely associated with a \_\_\_\_\_ strategy.
- A. innovator
  - B. customer-focused
  - C.** cost-cutter
  - D. differentiated

Difficulty: Medium

10. (p. 43) A compensation system using market-based pay is most likely to be part of a \_\_\_\_\_ strategy.
- A. innovator
  - B. cost-cutter
  - C. global
  - D. customer-focused

Difficulty: Medium

11. (p. 43) Flexible-generic job descriptions would most likely be used with a \_\_\_\_\_ strategy.
- A. innovator
  - B. customer-focused
  - C. differentiated
  - D. cost-cutter

Difficulty: Medium

12. (p. 43) \_\_\_\_\_ is to increasing variable pay as innovator is to market based pay.
- A. Cost-cutter
  - B. Customer-focused
  - C. Efficient
  - D. Competitive

Difficulty: Difficult

13. (p. 43) A compensation system focusing on system control and work specifications is most closely associated with \_\_\_\_\_ strategy.
- A. global
  - B. customer-focused
  - C. cost-cutter
  - D. differentiated

Difficulty: Easy

14. (p. 43) All of the following except \_\_\_\_\_ are compensation systems associated with an innovator strategy.
- A. reward innovation in products and processes

- B. market-based pay
- C. flexible job descriptions
- D. customer satisfaction incentives**

Difficulty: Medium

15 (p. 45) In the formula predicting performance, the component most closely related to compensation is \_\_\_\_\_

- A. A
- B. M**
- C. O
- D. C

Difficulty: Medium

16. (p. 47) Whole Foods' policy of holding executive salaries to no more than 14 times average pay of full-time employees is an example of which strategic pay decision?
- A. External competitiveness
  - B. Employee contributions
  - C. Management
  - D. Internal alignment**

Difficulty: Medium

17. (p. 47) Decisions regarding what forms compensation should be are part of \_\_\_\_.
- A. internal alignment
  - B. external competitiveness**
  - C. employee contributions
  - D. management

Difficulty: Medium

18. (p. 47) A book listing the previous year's pay of all employees is part of Whole Foods "No-secrets" philosophy. This is an example of which strategic compensation choice?
- A. Internal alignment
  - B. External competitiveness
  - C. Employee contributions
  - D. Management**

Difficulty: Medium

19. (p. 47) Whole Foods' decision to seek and engage employees who are going to help the company make money is an example of which strategic pay decisions?

- A.** Objectives
- B. Employee contributions
- C. Internal alignment
- D. Management

Difficulty: Medium

20. (p. 48) The second step of developing a total compensation strategy is to:

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

Difficulty: Medium

21. (p. 48) Examination of employee and union needs and the social and political context is a part of \_\_\_\_\_ step in formulating a total compensation strategy.

- A.** assess total compensation implications
- B. implement strategy
- C. mapping strategy
- D. assessing business needs

Difficulty: Easy

22. (p. 48) "Choosing techniques to fit strategy" is a part of which step in developing a total compensation system?

- A. Reassess
- B.** Implement strategy
- C. Map a total compensation strategy
- D. Assess total compensation implications

Difficulty: Medium

23. (p. 48) Which of the following is the correct order of the steps in formulating a total compensation strategy?

- A. Assess total compensation strategy, implement strategy, map a total compensation strategy, reassess
- B.** Assess total compensation strategy, map a total compensation strategy, implement strategy, reassess

- C. Map a total compensation strategy, implement strategy, assess total compensation strategy, reassess
- D. Map a total compensation strategy, assess total compensation strategy, implement strategy, reassess

Difficulty: Medium

24. (p. 50) “To maintain good citizenship as a company” and “To make a fair profit on current operations” are examples of \_\_\_\_\_.

- A.** values
- B. mission
- C. goals
- D. operating principles

Difficulty: Medium

25. (p. 51) Among unconventional benefits, U. S. workers in the Hudson’s survey rated \_\_\_\_\_ as their most preferred.

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

Difficulty: Medium

26. (p. 51) According to the Hudson survey, \_\_\_\_\_ is the single thing that would make them happier.

- A. more personal days and family leave
- B. a more flexible work schedule
- C.** more money
- D. better health insurance

Difficulty: Medium

27. (p. 51-52) Which of the following statements regarding allowing employees choice in their pay mix is not true?

- A. A wide-range of choices is difficult to manage
- B.** It provides an employer a clear competitive advantage

- C. Unlimited choice is difficult to design
- D. Too many choices can confuse people

Difficulty: Medium

28. (p. 52) Union preferences is a major factor in \_\_\_\_\_ of a total compensation strategy.
- A. implementing
  - B. reassessing
  - C. assessing implications**
  - D. mapping

Difficulty: Medium

29. (p. 54) In mapping a total compensation strategy, the question of how is compensation in the overall HR strategy is part of \_\_\_\_\_.
- A. objectives**
  - B. internal alignment
  - C. external competitiveness
  - D. management

Difficulty: Medium

30. (p. 54) The issue of how much and what forms of pay are our competitors using is part of which objective of total compensation strategy?
- A. Objectives
  - B. Internal alignment
  - C. External competitiveness**
  - D. Management

Difficulty: Easy

31. (p.54) \_\_\_\_\_ is the measure of how important compensation is in the overall HR strategy.
- A. Competitiveness
  - B. Prominence**
  - C. Centrality
  - D. Goal-focused

Difficulty: Medium



32. (p. 54) The role non-HR managers play in making pay decisions is called \_\_\_\_\_.  
**A.** ownership  
B. transparency  
C. technology  
D. decentralized decision-making

Difficulty: Difficult

33. (p. 54) Issues of transparency, technology, and choice are examples of choices related to the \_\_\_\_\_ strategy choice of total compensation.  
A. objectives  
**B.** management  
C. employee contributions  
D. internal alignment

Difficulty: Medium

34. (p. 54) Career growth, hierarchy and flexible design are examples of choices related to the \_\_\_\_\_ strategy choice of total compensation.  
A. objectives  
**B.** internal alignment  
C. external competitiveness  
D. employee contributions

Difficulty: Medium

35. (p. 53) A strategy map contains strategies about all but which of the following?  
A. External competitiveness  
B. Management  
**C.** HR alignment  
D. Employee contributions

Difficulty: Medium

36. (p. 55) Which of the following is not a test of whether a pay strategy is a source of competitive advantage?  
A. Alignment with business strategy  
**B.** Cost effectiveness

- C. Differentiation
- D. Adding value

Difficulty: Medium

37. (p. 55) Which of the following is not one of the tests to determine if a pay strategy is a source of competitive advantage?
- A. Alignment of the pay system with the organization's business strategy
  - B. Differentiation of an organization's strategy from its competitors
  - C. Internal alignment of the pay strategy with the organization's strategy
  - D.** External competitiveness of the pay system

Difficulty: Medium

38. (p. 55) Which of the following tests of competitive advantage is the easiest test to pass?
- A.** Alignment
  - B. Differentiation
  - C. Integration
  - D. Adding value

Difficulty: Medium

39. (p. 55) 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.

Difficulty: Medium

40. (p. 56) 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 difficulty test.
  - D. value created as a result of costs is difficult to specify.

Difficulty: Medium

41. (p. 57) \_\_\_\_\_ is a "best practice".
- A. Smaller internal pay differences

- B. Larger internal pay differences
- C.** Both smaller and larger internal pay differences
- D. Neither smaller nor larger internal pay differences

Difficulty: Medium

42. (p. 57-58) 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 on employee contributions vs other objectives is a best practice
  - D. The effect of paying more than competitors depends on the context

Difficulty: Difficult

43. (p. 58) Research investigating high-performance workplaces found that performance-based pay \_\_\_\_\_ when combined with other high performance practices.
- A.** improves attitudes and behaviors
  - B. shows large productivity improvements
  - C. reduces labor costs
  - D. has little effect on quality

Difficulty: Medium

44. (p. 58-59) When organization performance declines,
- A. a virtuous circle may be created.
  - B.** performance-based pay plans do not pay off.
  - C. managers will change the pay practices.
  - D. employees will work harder to improve performance.

Difficulty: Easy

45. (p. 59) Research shows that \_\_\_\_\_ can 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.** there are no compensation practices that

Difficulty: Difficult

### **True / False Questions**

46. (p. 38) Most organizations rely upon the market to determine how to pay their employees since compensation strategy is uncertain and complex.

**FALSE**

Difficulty: Easy

47. (p. 41) When Microsoft replaced stock options with stock awards, they were asking employees to put more “skin in the game”.

**FALSE**

Difficulty: Difficult

48. (p. 41) Labor market-based compensation practices in countries such as China, Germany and France, are likely to be less effective than in countries such as the U.S., Korea or Singapore because there is less movement from company to company

**TRUE**

Difficulty: Medium

49. (p. 42) Strategy refers to the fundamental direction that an organization chooses.

**TRUE**

Difficulty: Easy

50. (p. 42) An organization's strategy is defined by the tradeoffs in choices of what to do and what not to do.

**TRUE**

Difficulty: Easy

51. (p. 42) IBM was discussed as an example of an organization that changed its pay system and strategy to meet a different business strategy.

**TRUE**

Difficulty: Easy

52. (p. 42) In the proper sequence of strategic decisions, HR strategies are made before business unit strategies.

**FALSE**

Difficulty: Medium

53. (p. 43) Customer-focused pay strategies are very likely to use market-based pay.

**FALSE**

Difficulty: Medium

54. (p. 43) Compensation systems focusing on competitor labor costs typically follow a cost-cutter strategy.

**TRUE**

Difficulty: Medium

55. (p. 44) Although three separate compensation strategies may be identified, many companies use a combination of all three.

**TRUE**

Difficulty: Medium

56. (p. 44) Most firms do not have generic strategies but use a blend of cost and innovation.  
**TRUE**

Difficulty: Medium

57. (p. 47) Internal alignment refers to how differently levels of skills and work are paid across different organizations.  
**FALSE**

Difficulty: Medium

58. (p. 47) How an organization positions its total compensation against competitors is part of external competitiveness strategic choices.  
**TRUE**

Difficulty: Easy

59. (p. 47) One of Whole Foods' employee contributions strategic compensation choices is to seek and engage employees who are going to help the company make money.  
**FALSE**

Difficulty: Medium

60. (p. 47) All organizations that pay their employees have a compensation strategy even though it may not be stated or written.  
**TRUE**

Difficulty: Easy

61. (p. 49) What business should a company be in and how does the company win are questions that are a part of mapping a total compensation strategy.  
**FALSE**

Difficulty: Medium

62. (p. 50) Compensation strategy should reflect the organization's values.

**TRUE**

Difficulty: Easy

63. (p. 51) A major challenge in the design of future pay systems is how to better satisfy individual needs and preferences.

**TRUE**

Difficulty: Easy

64. (p. 51) The major challenge in the design of future pay systems is reducing the pay gap between top executives and low-level employees.

**FALSE**

Difficulty: Easy

65. (p. 52) Unlimited compensation choices by employees would meet with disapproval from the U.S. Internal Revenue Service.

**TRUE**

Difficulty: Easy

66. (p. 51) Offering employees choice in their compensation mix provides firms a distinct competitive advantage.

**FALSE**

Difficulty: Medium

67. (p. 52) Since unions represent such a small fraction of the labor force, their influence on pay decisions is relatively minor.

**FALSE**

Difficulty: Medium

68. (p. 49) Pay systems should fit well with other HR systems.

**TRUE**

Difficulty: Easy

69. (p. 49) In a high-performance system, pay strategy plays a lead, as opposed to support role.

**FALSE**

Difficulty: Medium

70. (p. 53) Work/life balance issues are part of competitiveness decisions in the pay model.

**TRUE**

Difficulty: Easy

71. (p. 54) A compensation strategy map shows which strategy is best for an organization.

**FALSE**

Difficulty: Easy

72. (p. 55) External competitiveness is one test of competitive advantage.

**FALSE**

Difficulty: Medium

73. (p. 55) Benchmarking and copying best practices does not lead to competitive advantage.

**TRUE**

Difficulty: Medium

74. (p. 54) Research on the effects of pay level showed that pay level affects financial performance while how employees are paid has no effect.

**FALSE**

Difficulty: Medium

75. (p. 54) When an organization uses pay for performance and performance is improving, this is a virtuous circle.

**TRUE**

Difficulty: Easy

### **Short Answer Questions**

76. (p. 37) What is strategy? How is it defined?



Strategy refers to the fundamental directions that an organization chooses. An organization defines its strategy through the tradeoffs it makes in choosing what to do and what not to do.

Difficulty: Easy

77. (p. 39) 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, and prospectors are firms that are more focused on innovation and new markets.

Difficulty: Easy

78. (p. 37) What are the different levels of strategy and the strategic choices in each level?

There are three levels of strategy, (i) the corporate level, (ii) the business unit level, and (iii) the functional level. At the corporate level, the fundamental strategic choice is: "What business should we be in?" At the business unit level, the choice shifts to: "How do we gain and sustain competitive advantage in this business?" At the function level the strategic choice is: "How should total compensation help this business gain and sustain competitive advantage?"

Difficulty: Medium

79. (p. 38) 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: Easy

80. (p. 40) Explain AMO theory.

Boxall and Purcell find an increasingly common “very basic theory of performance” being used, which they refer 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, 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: Medium

81. (p. 43) What are the different steps in formulating a total compensation strategy? List them in their order of occurrence.

There are four steps in formulating a total compensation strategy. They are:

- i. Assess Total Compensation Implications
- ii. Map a Total Compensation Strategy
- iii. Implement Strategy
- iv. Reassess

Difficulty: Easy

82. (p. 43) List the different factors in mapping a total compensation strategy.

Factors in mapping a total compensation strategy include objective, alignment, competitiveness, contributions and, management.

Difficulty: Easy

83. (p. 44) What is the first step in assessing total compensation implications?

The first step in assessing total compensation implications includes an understanding of the specific industry in which the organization operates and how the organization plans to compete in that industry. This corresponds with the strategic choices in the corporate and the business unit levels: What business should we be in, and how do we win in that business?

Difficulty: Easy

84. (p. 50) What are the aspects of the alignment of pay strategies?

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: Easy

85. (p. 54-55) 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 improve 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: Difficult