CHAPTER 2

Contextual Influences on Compensation Practice

Learning Objectives

2-1. Discuss the reasons for interindustry wage differentials.
2-2. Explain the factors that contribute to pay differentials based on occupational characteristics.
2-3. Summarize the reasons for the occurrence of geographic pay differentials.
2-4. Discuss the role of labor unions in setting compensation.
2-5. Identify and discuss key employment laws pertinent to compensation practice.

Outline

I. Overview
II. Interindustry Wage Differentials
III. Pay Differentials Based on Occupational Characteristics
IV. Geographic Pay Differentials
V. Labor Unions
VI. Employment Laws Pertinent To Compensation Practice
VII. Key Terms
VIII. Discussion Questions and Suggested Answers
IX. Preparing for My Career: Compensation in Action
X. End of Chapter Cases; Instructor Notes, and Questions and Suggested Student Responses
XI. Crunch the Numbers! Questions and Suggested Student Responses
XII. Working Together: Team Exercise with Suggested Student Responses
XIII. Assisted-Graded Questions
XIV. Additional Case from the MyLab Management Website; Instructor Notes and Questions and Suggested Student Responses

Lecture Outline

I. Overview

A. Contextual influences on pay
   1. Compensation professionals must understand patterns of pay differentials to make informed decisions about pay
   2. Must also make decisions within scope of employment and labor laws
   3. Global context also influences compensation

II. Interindustry Wage Differentials

A. The differences in wages and benefits across industries
   1. Attributed to:
      a. The industry's product market
      b. The degree of capital intensity
      c. The profitability of the industry
      d. Unionization
B. Companies in Product Markets with Little Competition
   1. Generally pay higher wages
   2. Exhibit substantial profits
   3. Exhibit limited new competition because of:
      a. Higher barriers to entry
      b. Insignificant influence of foreign competition
   4. Government regulations and extremely expensive equipment represent entry barriers
C. Capital Intensity
   1. Defined as the extent to which companies' operations are based on the use of large-scale equipment
   2. The amount of average pay varies with the degree of capital intensity
      a. Generally manufacturing jobs are capital intensive, service jobs are not
D. Profitability
   1. Companies in more profitable industries tend to pay higher compensation
E. Unionization
   1. Unionized industries tend to pay higher
   2. Power of collectively negotiating leads to higher wages than individually negotiating

III. Pay Differentials Based on Occupational Characteristics

A. Occupation
   1. Group of jobs, found at one or more company, in which a common set of tasks are performed or are related in terms of similar objectives methodologies, materials, products, worker actions, or worker characteristics
   2. Pay variations can occur within occupations, based on the complexity of the jobs
B. Knowledge, skills and abilities
   1. Role of job analysis
   2. Jobs that require formal education or early experience are paid more
C. Supply and demand
   1. Companies demand for individuals relative to supply influences compensation

IV. Geographic Pay Differentials

A. Relative pay differentials
   1. Occur between geographic areas
B. Pay rate differentials
   1. Expressed in dollars as hourly or annual pay
   2. For occupations based on particular geographic regions
   3. Cost of living differences

V. Labor Unions

A. National Labor Relations Act of 1935 (NLRA)
   1. Designed to remove barriers to free commerce and to restore equality of bargaining power between employees and employers
   2. Collective bargaining agreement is a written document that describes the terms of employment approved by management and employees during negotiations
B. Compensation Issues in Collective Bargaining
   1. Union and management negotiations usually center on pay raises and employee benefits
   2. Cost-of-living-adjustments (COLAs)
      a. Automatic pay increases based on changes in prices, as indexed by the consumer price index (CPI)
      b. Enables workers to maintain their standards of living by adjusting wages for inflation
   3. Many nonunion companies offer higher compensation than they would if unions did not exist, this phenomenon is known as a spillover effect
   4. Union influence has declined because:
      a. Legislation outlawed unions' use of intimidation
      b. Anti-discrimination laws provided protections for women and minorities
      c. Globalization increasing competition
      d. Right-to-work laws that prohibit management and unions from entering into agreements requiring union membership as a condition of employment
      e. Higher rates of unionization in the public or government sector

VI. Employment Laws Pertinent To Compensation Practice

A. Legislative Actions
   1. Four Amendments to the U.S. Constitution
      a. Article 1, Section 8 ("The Congress shall have the power…to regulate Commerce with foreign nations, and among the several States, and with the Indian Tribes…")

b. First Amendment ("Congress shall make no laws respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.")

c. Fifth Amendment ("No person shall...be deprived of life, liberty, or property without due process of law…")

d. Fourteenth Amendment, Section 1 ("No state shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States, nor shall any State deprive any person of life, liberty, or property without due process of law; nor deny any person within its jurisdiction the equal protection of the law.")

2. Government has three levels in U.S.
   a. Federal government oversees the entire U.S. and territories
   b. State governments enact laws that pertain exclusively to respective regions
   c. Local governments enact laws that are pertinent to smaller geographic regions

B. Income Continuity, Safety, and Work Hours Laws
   1. Three main factors
      a. Great Depression
         i. Passage of the Social Security Act of 1935 (Title IX)
         ii. Passage of workers' compensation programs
      b. Family businesses to large factories
      c. Division of labor
   2. Fair Labor Standards Act of 1938 (FLSA)
      1. Addresses three main issues of minimum wage, overtime pay, and child labor provisions
         a. Enforced by the U.S. Department of Labor
      2. Minimum wage
         a. Designed to ensure wages for a minimally acceptable standard of living
         b. Originally set at $0.25 per hour
         c. Federal law supersedes state minimum wage law where the federal minimum wage is greater than the state
      3. Overtime pay provisions
         a. Defined in FLSA
         b. Most employers must pay time and one-half for over 40 hours work in a period of 7 consecutive days
         c. Exempt jobs satisfy three tests used to determine whether an employer must pay overtime, most other jobs are nonexempt

d. Fair Pay Rules in 2004 added additional complexity in determining what employees are exempt
e. Portal-to-Portal Act of 1947 defines the term hours worked to include these compensable work activities:
    i. Waiting time
    ii. On-Call time
    iii. Rest and meal periods
    iv. Sleeping time and certain other activities
    v. Lectures, meetings, and training programs
    vi. Travel time
f. Equal Pay Act of 1963, which prohibits sex discrimination in pay for employees performing equal work

4. Child labor provisions
    a. Intended to protect children from being overworked, working in potentially hazardous settings, and having their education jeopardized due to excessive work hours
    b. Children younger than age 14 usually cannot be employed
    c. Children ages 14 and 15 may work in safe occupations outside school hours with some limitations
    d. Children ages 16 and 17 do not have hourly restrictions but cannot work in hazardous jobs (e.g., running heavy industrial equipment, working around harmful substances)

C. Pay Discrimination Legislation
1. Came out of the Civil Rights Movement of the 1960s
2. Equal Pay Act of 1963
    a. Enforced by the Equal Employment Opportunity Commission (EEOC)
    b. Applies to jobs of equal worth according to the Department of Labor's definition of compensable factors, such as:
        i. Levels of skill
        ii. Effort
        iii. Responsibility
        iv. Working conditions
    c. Jobs must have "similar", not necessarily the "same" working conditions
    d. Pay differentials for equal work are not always illegal; are legal where such payments are made pursuant to:
        i. A seniority system
        ii. A merit system
        iii. A system which measures earnings by the quantity or quality of production
        iv. A differential based on any factor other than gender

D. Civil Rights Act of 1964
   1. Legislators designed Title VII of this Act to promote equal employment opportunities for underrepresented minorities
   2. Disparate treatment discrimination
      a. Represents intentional discrimination, occurring whenever employers intentionally treat some workers less favorably than others because of: race, color, religion, sex, or national origin
   3. Disparate impact discrimination
      a. Represents unintentional discrimination that occurs whenever an employer applies employment practices to all employees
      b. The practice leads to unequal treatment of protected employee groups
   4. Title VII applies to:
      a. Companies with 15 or more employees
      b. Employment agencies
      c. Labor unions
      d. Labor management committees controlling apprenticeship and training
   5. Lilly Ledbetter Fair Pay Act overturned the Ledbetter v. Goodyear Tire & Rubber Co. case removing allowing women to file a pay discrimination charge within 180 days of a discriminatory paycheck
   6. The Paycheck Fairness Act strengthens the remedies available to put sex-based pay discrimination on par with race-based pay discrimination
   7. Bennett Amendment (to Title VII)
      a. Allows female employees to charge employers with Title VII violations regarding pay only when the employer has violated the Equal Pay Act of 1963
   8. Age Discrimination in Employment Act of 1967 (ADEA)
      a. Designed to protect workers age 40 and older ("baby boomers") from age discrimination
      b. Older Workers Benefit Protection Act (OWBPA) places additional restrictions on employers' benefits practices
         i. Employer may require older employees to pay more for health insurance or life insurance coverage if the cost is significantly greater than the cost for younger workers because these costs generally rise with age
         ii. Equal benefit or equal cost principle which specifies that employers do not have to provide equal benefits to older workers if it costs them more to do so
   9. Civil Rights Act of 1991
      a. Designed to overturn several Supreme Court rulings
         i. Atonio v. Ward Cove Packing Company shifted the burden of proof from the employee to the employer

ii. Lorance v. AT&T Technologies allows employees to file a discrimination claim when the system is implemented or whenever the system negatively affects them

iii. Boureslan v. Aramco allows expatriates to file discrimination lawsuits

E. Accommodating Disabilities and Family Needs

1. Pregnancy Discrimination Act of 1978 (PDA)
    a. An amendment to Title VII of the Civil Rights Act of 1964 that prohibits disparate impact discrimination against pregnant women for all employment practices
    b. Employers must not treat pregnancy less favorably than other medical conditions covered under employee benefits plans
2. Americans with Disabilities Act of 1990 (ADA)
    a. Prohibits discrimination against individuals with mental or physical disabilities within and outside employment settings
    b. Applies to employers with 15 or more employees
    c. Title I requires reasonable accommodations may include such efforts as making existing facilities readily accessible, restructuring jobs, and modifying work schedules
3. Family and Medical Leave Act of 1993 (FMLA)
    a. FMLA was designed to provide employees with job protection in cases of family or medical emergency
    b. Guarantees unpaid leave and the right to return to either the same position or a similar position with the same pay, conditions, and benefits

F. Prevailing Wage Laws

1. Davis–Bacon Act of 1931
    a. Established employment standards for construction contractors holding federal government contracts valued at more than $2,000, including: highway building, dredging, demolition, and cleaning, as well as painting and decorating public buildings
2. Walsh–Healey Contracts Act of 1936
    a. Applies to contractors and manufacturers who sell supplies, material, and equipment to the federal government with contracts worth at least $10,000
    b. Requires contractors to meet guidelines relating to wages and hours, child labor, convict labor, and hazardous working conditions
    c. Prohibits contractors from exposing workers to conditions that violate the Occupational Safety and Health Act of 1970

End of the Chapter

VII. Key Terms

Interindustry wage differentials: Represent the pattern of pay and benefits associated with characteristics of industries
Occupation: A group of jobs, found at more than one company, in which a common set of tasks are performed or are related in terms of similar objectives, methodologies, materials, products, worker actions, or worker characteristics
National Labor Relations Act of 1935 (NLRA): The purpose of this act was to remove barriers to free commerce and to restore equality of bargaining power between employees and employers
Collective bargaining agreement: A written document that describes the terms of employment approved by management and employees during negotiations
Spillover effect: Occurs when management of nonunion firms generally offered somewhat higher wages and benefits to reduce the chance that employees would seek union representation
Right-to-work-laws: Prohibit management and unions from entering into agreements requiring union membership as a condition of employment
Federal constitution: Forms the basis for employment laws
Federal government: Oversees the entire United States and its territories
State governments: Enact and enforce laws that pertain exclusively to their respective regions
Local governments: Enact and enforce laws that are most pertinent to smaller geographic regions
Great Depression: Triggered legislation designed to stabilize the income of an individual who became unemployed because of poor business conditions or workplace injuries
Social Security Act of 1935 (Title IX): Provided temporary income to workers who became unemployed through no fault of their own
Workers' compensation: Granted income to workers who were unable to work because of injuries sustained on the job
Fair Labor Standards Act of 1938 (FLSA): Establishes minimum wage, overtime pay, recordkeeping, and youth employment standards affecting employees in the private sector and in Federal, State, and local governments
Exempt: Employees not covered by the FLSA including generally executive, administrative, learned professional, creative professional, computer workers, and outside sales employees
Nonexempt: Jobs that are subject to the FLSA overtime pay provision
FairPay Rules: Revised FLSA guidelines by the Department of Labor
Portal-to-Portal Act of 1947: Defines the term hours worked that appears in the FLSA
Equal Pay Act of 1963: Prohibits sex discrimination in pay for employees performing equal work

Civil Rights Act of 1964: Key legislation designed to protect designated classes of employees and to uphold their rights individually against discriminatory employment decisions
Compensable factors: Skill, effort, responsibility, and working conditions
Title VII: Of the Civil Rights Act was designed to promote equal employment opportunities for underrepresented minorities.
Disparate treatment: Represents intentional discrimination, occurring whenever employers intentionally treat some workers less favorably than others because of their race, color, sex, national origin, or religion
Disparate impact: Represents unintentional discrimination
Ledbetter v. Goodyear Tire & Rubber Co.: U.S. Supreme Court case that rendered a very strict interpretation as to when the statute of limitations period begins for women to sue their employers for discrimination in pay
Lilly Ledbetter Fair Pay Act: Restores prior law providing that a pay discrimination charge must simply be filed within 180 days of a discriminatory paycheck
Paycheck Fairness Act: Strengthens the Equal Pay Act of 1963 by strengthening the remedies available to put sex-based pay discrimination on par with race-based pay discrimination
Bennett Amendment: Allows female employees to charge employers with Title VII violations regarding pay only when the employer has violated the Equal Pay Act of 1963
Age Discrimination in Employment Act of 1967 (ADEA): Protects workers age 40 and older from illegal discrimination
Baby boom generation: Generation born roughly between 1946 and 1964 and represented a swell in the American population
Older Workers Benefit Protection Act (OWBPA): The 1990 amendment to the ADEA—placed additional restrictions on employer benefits practices
Civil Rights Act of 1991: Overturned several Supreme Court rulings
Pregnancy Discrimination Act of 1978 (PDA): Prohibits disparate impact discrimination against pregnant women for all employment practices
Americans with Disabilities Act of 1990 (ADA): Prohibits disparate impact discrimination against pregnant women for all employment practices.
Title I: Of the ADA requires that employers provide reasonable accommodation
Family and Medical Leave Act of 1993 (FMLA): Provides guaranteed leave and the right of the employee to return to either the position he or she left when the leave began or to an equivalent position with the same benefits, pay, and other terms and conditions of employment
Davis–Bacon Act of 1931: Establishes employment standards for construction contractors holding federal government contracts valued at more than $2,000
Walsh–Healey Public Contracts Act of 1936: Mandates that contractors with federal contracts meet guidelines regarding wages and hours, child labor, convict labor, and hazardous working conditions
Occupational Safety and Health Act of 1970: Ensures safe and healthful working conditions for working men and women by authorizing enforcement of the standards under the act

VIII. Discussion Questions and Suggested Answers

2-1. Which contextual influence do you believe will pose the greatest challenge to companies' competitiveness? Explain your rationale.

Student answers may vary but they may reference the contextual influences of patterns of pay differentials, pertinent employment and labor relations laws and the global context.

Learning Objective: 2-1. Discuss the reasons for interindustry wage differentials
AACSB: Analytical thinking

2-2. Should the government raise the minimum wage? Explain your answer.

Answers can be pro or con. 'Yes' answers should discuss living or competitive wages among other things. 'No' answers should include impact on business and employment levels.

Learning Objective: 2-5. Identify and discuss key employment laws pertinent to compensation practice.
AACSB: Analytical thinking

2-3. Do unions make it difficult for companies to attain competitive advantage? Explain your answer.

Student answers may vary. One might argue that the negotiation of pay and benefits in collectively bargaining agreements may make it difficult for an organization to attain a competitive advantage. However, spillover effects may negate this challenge as many nonunion companies offer higher compensation.

Learning Objective: 2-4. Discuss the role of labor unions in setting compensation
AACSB: Analytical thinking

2-4. What are some of the pros and cons of adjusting pay based on cost-of-living differences from a company's perspective and an employee's perspective?

Student responses may vary. From the company's perspective a cost-of-living adjustment may be a con if the company is not performing well and cannot afford the increase. However, cost-of-living adjustments may only represent modest pay increases. From the employee's perspective, a cost-of-living adjustment may be a pro as it offers automatic pay increases. However, as these pay increases may be modest, employees may feel this is a con as another type of pay increase may be more for the employee.

Learning Objective: 2-4. Discuss the role of labor unions in setting compensation
AACSB: Analytical thinking

2-5. Some people argue that there is too much government intervention, whereas others say there is not enough. Based on the presentation of laws in this chapter, do you think there is too little or too much government intervention? Explain your answer.

One could argue that the government doesn't do enough to intervene based on the fact that although many laws, acts, and decrees protect employees and employers alike, it is difficult to focus attention on some matters. Increases in wages, for example, may be something that the government ought to look into more closely and with more severity. Wages are a great source of struggle and anguish for many people. If the government increases wages in line living costs, then all would be well, but this is not always the case. However, one could also argue that the government gets involved in such issues too readily, and that sometimes it's best for the employees and employers to work out their differences on their own.

Learning Objective: 2-5. Identify and discuss key employment laws pertinent to compensation practice.
AACSB: Analytical thinking

IX. Preparing for My Career: Compensation in Action

Instructor Notes:

This section outlines the role human resources professionals and line managers take in complying with employment legislation. While HR is ultimately responsible for the administration of compensation and benefits, line managers must have enough awareness to make informed decisions. This section can help students understand the importance of understanding compensation practices whether they pursue a career as a human resources professional or a line manager.

X. End of Chapter Cases; Instructor Notes, and Questions and Suggested Student Responses

Case 1: Take it or Leave it

Instructor Notes:

Companies with offices in different geographic locations may face challenges as employees transfer between offices. In this case, Martin LeBlanc has been offered a transfer from the company's Atlanta office to the San Jose office. The new position is considered a lateral move and Martin's boss Beth informed him that his salary would stay the same.

Questions and Suggested Student Responses:

2-6. Why did Martin become disappointed?

While not stated in the case, through some online research students can determine that the cost-of-living is higher in San Jose than it is in Atlanta. Therefore, Martin likely expected a geographic pay differential based on the increased cost-of-living in San Jose.

Learning Objective: 2-3. Summarize the reasons for the occurrence of geographic pay differentials
AACSB: Analytical thinking

2-7. Do you think that Beth's decision was reasonable? Why or why not?

If you consider that Beth was following company policy regarding pay raises, her decision could be considered reasonable. However, she should compare Martin's salary to the salary of other employees in the same role in the San Jose office to determine if she should offer him a pay increase.

Learning Objective: 2-3. Summarize the reasons for the occurrence of geographic pay differentials
AACSB: Analytical thinking

2-8. What are some of the factors that Beth should consider when transferring employees from Atlanta to San Jose? From San Jose to Atlanta?

From a compensation perspective, Beth should consider the increase in the cost-of-living from Atlanta to San Jose. This could include the cost for groceries, housing, utilities, transportation, and healthcare. For employees moving from San Jose to Atlanta, the issue becomes more complex as companies do not typically lower an employee's pay when they transfer. However, she should again keep in mind the geographic differences.

Learning Objective: 2-3. Summarize the reasons for the occurrence of geographic pay differentials
AACSB: Analytical thinking

Case 2: Ethics Dilemma: Perpetuating the Gender Pay Gap at Safe Security Alarm Systems

Instructor Notes:

Two candidates are offered two different jobs, but both jobs have the same required skills, knowledge, abilities, education, and relevant work experience. Sally, the hiring manager, believes she is being fair by offering each candidate a 10% increase over their last pay rate. However, this decision results in a significantly lower salary for the female candidate.

Questions and Suggested Student Responses:

2-9. As a compensation professional, what would you do?

As a compensation professional it is important to make the right decision ethically, but also from a legal perspective. It is important to treat employees equitably and in this case; the two jobs have all of the same compensable factors including the required skills, knowledge, abilities, education, and relevant work experience. While Sally's approach may seem fair as both candidates are being treated the same, the outcome is significantly different for both candidates. Given that the roles are equal based on the compensable factors, offering Jill the lower salary could be considered pay discrimination.

Learning Objective: 2-5. Identify and discuss key employment laws pertinent to compensation practice
AACSB: Ethical understanding and reasoning

2-10. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

One's belief about fairness might influence Sally to make a less-than-ethical decision in this case. Sally wants to offer both candidates a 10% salary increase so she believes the offers are fair. Further, Jill is excited about the offer as she wants to leave her current job. Her joy at receiving the job offer could also influence Sally's decision.

Learning Objective: 2-5. Identify and discuss key employment laws pertinent to compensation practice
AACSB: Ethical understanding and reasoning

XI. Crunch the Numbers! Questions and Suggested Student Responses

Comparison of Compensation and Benefits Cost in Union and Nonunion Settings

2-11. As a percent of total compensation costs for union settings, how much do these companies spend to provide (a) wages and salaries, and (b) total benefits? As a percent of total compensation costs in nonunion settings, how much do these companies spend to provide (c) wages and salaries and (d) total benefits?

a) Union settings, wages and salaries as a percent of total compensation = 28.94/50.21 = 57.6%
b) Union settings, total benefits as a percent of total compensation = 21.27/50.21 = 42.4%
c) Non-union settings, wages and salaries as a percent of total compensation = 26.09/38.04 = 68.6%
d) Non-union settings, total benefits as a percent of total compensation = 11.95/38.04 = 31.4%

Learning Objective: 2-4. Discuss the role of labor unions in setting compensation
AACSB: Application of knowledge

2-12. By what percent are compensation costs in union settings higher than in nonunion settings for (a) wages and salaries and for (b) total benefits? If nonunion companies want to reduce the gap by 10 percent, how much will they pay to provide (c) paid leave, (d) supplemental pay, (e) insurance, and (f) retirement and savings benefits?

a) Compensation costs in union settings are higher than in non-union settings for wages and salaries = 50.21 – 38.04 = 12.17 higher, or 24.2% (12.17/50.21)
b) Compensation costs in union settings are higher than in non-union settings for benefits = 21.27 – 11.95 = 9.32 higher, or 43.8% (9.32/21.27)

Nonunion companies may want to reduce the gap between benefit costs of union companies due to the spillover effect. To do so, they would need to increase their spending on benefits by 10%.

c) Paid leave = 2.58 x 1.10 = 2.84
d) Supplemental pay = 1.42 x 1.10 = 1.56
e) Insurance = 3.08 x 1.10 = 3.39
f) Retirement and savings = 1.88

Learning Objective: 2-4. Discuss the role of labor unions in setting compensation
AACSB: Application of knowledge

2-13. If costs were to increase by 5 percent in union settings, what would the new costs be for (a) wages and salaries and (b) total benefits? To maintain the 10 percent reduction (questions 2-12), how much would nonunion companies spend on (a) wages and salaries and for (b) total benefits?

a) 5% increase in wages in union settings = 28.94 x 1.05 = 30.39
b) 5% increase in total benefits in union settings = 21.27 x 1.05 = 22.33
c) 10% reduction in gap wages in nonunion settings (increase by 10%) = 26.09 x 1.10 = 28.70
d) 10% reduction in gap total benefits in nonunion settings (increase by 10%) = 11.95 x 1.10 = 13.15

Learning Objective: 2-4. Discuss the role of labor unions in setting compensation
AACSB: Application of knowledge

XII. Working Together: Team Exercise with Suggested Student Responses

Instructor Notes:

Students are asked to conduct research online related to the topics discussed in this chapter.

Questions and Suggested Student Responses:

2-14. What information in your research did you find most surprising? Explain.

Student responses will vary depending upon the topics the students choose to research.

Learning Objective: Could apply to any learning objectives depending upon the topics the students choose to research.
AACSB: Reflective thinking

2-15. What information in your research did you find least surprising? Explain.

Student responses will vary depending upon the topics the students choose to research.

Learning Objective: Could apply to any learning objectives depending upon the topics the students choose to research.
AACSB: Reflective thinking

XIII. Assisted-Graded Questions

2-16. How would the compensation system change if the minimum wage provision of the Fair Labor Standards Act of 1938 were repealed?

Answer to this question can be found in MyLab Management

2-17. Suggest ways that companies in low-paying industries can increase their ability to attract and retain highly qualified individuals.

Answer to this question can be found in MyLab Management

2-18. MyLab Management Only – comprehensive writing assignment for this chapter.

XIV. Additional Case from the MyLab Management Website; Instructor Notes, and Questions and Suggested Student Responses

Case Name: Preparing for Growth at Waxman Candles

Instructor Notes:

In determining a company's compensation strategy, a company must analyze both external and internal factors that may impact the strategy. Such an analysis can help support a company's compensation tactics and ensure effective practices are in place to attract and retain the right talent. This is especially important for companies that are in the growth stage as they can ensure that compensation decisions are made deliberately and the company is positioned well for future growth.

Questions and Suggested Student Responses:

2-19. What are some competitive forces that human resource management consultant will consider in conducting a strategic analysis to determine compensation practices?

The consultant should examine the external market environment. In searching for some experienced staff, such as marketing professionals, it is important to understand how to position the company to compete for talent. The consultant should also make an assessment of the labor market. As many of the positions require little skill, understanding the available labor pool and typical earnings ranges will help determine the compensation strategy. Internally, the consultant should examine the necessary capabilities for the different functional areas. For example, because the customization of the product is what differentiates the product from competitors, the customer service function is crucial to business success. Further, the financial condition of the company will help set the parameters of the compensation strategy.

AACSB: Analytical thinking

2-20. How will being in the growth stage impact the company's compensation practices?

Even though the company appears to be financial stable, as a company in the growth stage they must still be aware of cash flow concerns as they determine compensation tactics. Further, they will likely limit discretionary benefits as they have a high cost. The company may choose to emphasize incentive pay, which ties pay to the company's profitability as they grow.

AACSB: Analytical thinking