

## Chapter 2: A Strategic Framework for Compensation

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### TRUE/FALSE

1. The only sure way to know whether a particular pay practice will be successful in your organization is to determine if it has been successful in other organizations.

ANS: F                      PTS: 1                      REF: 25                      OBJ: 1

2. The strategic framework for compensation helps to identify the corporate strategy that will best suit a firm's compensation strategy.

ANS: F                      PTS: 1                      REF: 26                      OBJ: 3

3. The key feature of an organizational system is that it transforms input resources into outputs that are valued by a body or group.

ANS: T                      PTS: 1                      REF: 25                      OBJ: 2

4. The link between contextual and structural variables is the managerial strategy.

ANS: T                      PTS: 1                      REF: 28                      OBJ: 4

5. The organization's domain is its country of origin.

ANS: F                      PTS: 1                      REF: 29                      OBJ: 4

6. The three main managerial strategies described in the text are: the classical style, the human relations style, and the high involvement style.

ANS: T                      PTS: 1                      REF: 29                      OBJ: 5

7. In the classical managerial strategy the main role of the supervisor is to control and evaluate subordinates.

ANS: T                      PTS: 1                      REF: 31                      OBJ: 5

8. To determine the most appropriate managerial strategy for a firm to utilize, it is necessary to examine the firm's structural variables.

ANS: F                      PTS: 1                      REF: 39                      OBJ: 6

9. Of the five contextual variables, the most important is the environment that faces a given firm.

ANS: T                      PTS: 1                      REF: 40                      OBJ: 6

10. As the business environment has become more complex, and demands on employee performance have gotten higher, it is important to simplify compensation systems.

ANS: F                      PTS: 1                      REF: 52                      OBJ: 8

### MULTIPLE CHOICE

1. Which of the following sets of resources is used by an organization to transform inputs into outputs?
  - a. human, logistical, administrative, and financial
  - b. data bases, inventory, customers, and employees
  - c. human, information, physical, and financial
  - d. sales, service, marketing and policies

ANS: C                      PTS: 1                      REF: 23                      OBJ: 2  
BLM: Remember

2. Which of the following variables refers to the set of procedures and resources used to transform input into output?
  - a. domain
  - b. technology
  - c. task environment
  - d. work force

ANS: B                      PTS: 1                      REF: 25                      OBJ: 2  
BLM: Remember

3. To expand your scope as an HR practitioner, you recently transferred from a smaller manufacturing firm to a larger one and discovered that, although entirely different, both compensation systems are effective. How is this possible?
  - a. Both companies have well-trained managers.
  - b. Both companies do similar work and hire the same kinds of employees.
  - c. Both systems fit the organization and its strategy.
  - d. Both take a universal approach using the best practices of Canada's top employers.

ANS: C                      PTS: 1                      REF: 25                      OBJ: 1  
BLM: Understand

4. What can you determine by examining a firm's contextual variables?
  - a. the managerial strategy a firm is actually using
  - b. the best type of structure for the organization
  - c. the firm's competitive advantage
  - d. organizational goals

ANS: B                      PTS: 1                      REF: 26                      OBJ: 4  
BLM: Understand

5. Knowing which organization structure to use requires first understanding which of the following aspects?
  - a. structural variables
  - b. corporate strategy
  - c. managerial strategy
  - d. technology

ANS: B                      PTS: 1                      REF: 26                      OBJ: 2  
BLM: Understand

6. As a new business owner you have decided to take a contingency approach to organizational design. What must first be considered in order to identify the most appropriate structure for your company?
  - a. structural variables
  - b. managerial strategy
  - c. financial variables

d. contextual variables

ANS: D                    PTS: 1                    REF: 26                    OBJ: 2  
BLM: Apply

7. A strategic framework is used as a tool to help determine which aspect of compensation?
- the most effective compensation system
  - corporate goals
  - corporate strategy
  - the business plan

ANS: A                    PTS: 1                    REF: 27                    OBJ: 3  
BLM: Understand

8. Which of the following components is ***not*** part of the strategic framework for compensation?
- resource providers
  - structural variables
  - contextual variables
  - managerial strategy

ANS: A                    PTS: 1                    REF: 27                    OBJ: 4  
BLM: Remember

9. What can you determine by examining a firm's structural variables?
- the managerial strategy a firm is actually using
  - the managerial strategy a firm should be using
  - a firm's corporate strategy
  - the corporate strategy a firm should be using

ANS: A                    PTS: 1                    REF: 27                    OBJ: 4  
BLM: Understand

10. Which of the following dimensions is ***not*** a structural variable?
- job design
  - coordination/departmentation
  - reward systems
  - corporate strategy

ANS: D                    PTS: 1                    REF: 27                    OBJ: 4  
BLM: Remember

11. Which of the following dimensions is ***not*** a contextual variable?
- control system
  - technology
  - work force
  - organization size

ANS: A                    PTS: 1                    REF: 28                    OBJ: 4  
BLM: Remember

12. You are in the process of designing a new reward system for your firm. What is the most important single determinant of what will or will not be a successful reward system for your firm?
- the particular managerial strategy used
  - the interrelationships among the structural variables
  - corporate strategy
  - competitive advantage

ANS: A                    PTS: 1                    REF: 28                    OBJ: 4  
BLM: Understand

13. What determines the most appropriate managerial strategy?
- organizational processes
  - factors of production
  - contextual variables
  - structural variables

ANS: C                    PTS: 1                    REF: 28                    OBJ: 4  
BLM: Understand

14. What determines the contextual variables?
- organizational goals
  - structural variables
  - managerial strategy
  - corporate strategy

ANS: A                    PTS: 1                    REF: 28                    OBJ: 4  
BLM: Understand

15. What is the best way to determine which managerial strategy a firm is actually using?
- examine structural variables
  - review organizational policies and procedures
  - examine contextual variables
  - observe the behaviours of managers

ANS: A                    PTS: 1                    REF: 28                    OBJ: 4  
BLM: Understand

16. Which of the following sets of strategies reflects different assumptions about employees and how they should be managed?
- classical, human relations, and high-involvement
  - low-cost, differentiator, focused differentiator
  - corporate, competitive, and business
  - defender, prospector and analyzer

ANS: A                    PTS: 1                    REF: 29                    OBJ: 5  
BLM: Remember

17. This term is used to describe the specific products or services offered by a given organization:
- Task environment
  - Differentiation
  - Craft
  - Domain

ANS: D                    PTS: 1                    REF: 29                    OBJ: 3  
BLM: Remember

18. Which of the following characteristics typifies a classical organization?
- joint employee-management planning and goal-setting
  - positive social environment
  - loyal employees who are dedicated to the norms of the organization
  - high turnover

ANS: D                    PTS: 1                    DIF: 30                    OBJ: 5  
BLM: Understand

19. Which of the following leadership styles is appropriate for companies pursuing a classical managerial strategy?
- The leader is controlling and employee-oriented.
  - The leader is controlling and task-oriented.
  - The leader gives free rein to employees.
  - The leader is facilitating and both task- and employee-oriented.

ANS: B                    PTS: 1                    REF: 31                    OBJ: 5  
KEY: Remember

20. Which reward strategy is appropriate for companies using a human relations approach to management?
- Rewards are mainly extrinsic and focus on loyalty to the organization
  - A wide variety of both intrinsic and extrinsic rewards are used.
  - Only extrinsic rewards are offered.
  - Only intrinsic rewards are offered.

ANS: A                    PTS: 1                    REF: 34                    OBJ: 5  
BLM: Understand

21. Which of the following concepts refers to the informal structure of the organization and can help to guide employee behaviour?
- engagement
  - ethics
  - climate
  - culture

ANS: D                    PTS: 1                    REF: 38                    OBJ: 5  
BLM: Understand

22. Which of the following key cultural values would be detrimental to a high-involvement organization?
- honesty
  - trustworthiness
  - doing things the way they have always been done
  - open communication

ANS: C                    PTS: 1                    REF: 39                    OBJ: 6  
BLM: Analyze

23. Why is it so important to understand the managerial strategy used by a firm?
- Managerial strategy determines the most appropriate reward system.
  - Managerial strategy determines the most appropriate corporate strategy.
  - Managerial strategy determines the most appropriate contextual variables.
  - Managerial strategy determines the most appropriate way to manage employees.

ANS: A                    PTS: 1                    REF: 39                    OBJ: 6  
BLM: Understand

24. You are the new owner of a microcircuit design company which operates in a very unstable and complex environment. Which of the following managerial strategies should you adopt to increase company performance?
- human relations
  - classical

- c. hybrid
- d. high-involvement

ANS: D                    PTS: 1                    REF: 40                    OBJ: 7  
BLM: Apply

25. Which of the following production processes refers to long-linked technology?
- a. Standardized transactions are used to connect mutually interested people.
  - b. Tasks are divided into sequential steps and carried out by different employees.
  - c. Each item or case is unique and dealt with individually.
  - d. There is no standardization used to produce the product.

ANS: B                    PTS: 1                    REF: 42                    OBJ: 6  
BLM: Remember

26. According to Perrow's approach to classifying technology, an electrical utility or a plant that manufactures washing machines are examples of what type of technology?
- a. routine
  - b. nonroutine
  - c. mediating
  - d. focused low-cost

ANS: A                    PTS: 1                    REF: 43                    OBJ: 6  
BLM: Apply

27. A defender strategy, a stable environment, a long-linked technology, a relatively low-skilled work force, and a large organization would be a good combination of variables for which managerial strategy?
- a. classical
  - b. human relations
  - c. high-involvement
  - d. hybrid

ANS: A                    PTS: 1                    REF: 45                    OBJ: 7  
BLM: Apply

28. As a highly skilled, well-educated younger professional looking for employment you are generally more suited to what type of organization?
- a. classical
  - b. human relations
  - c. high-involvement
  - d. hybrid

ANS: C                    PTS: 1                    REF: 45                    OBJ: 7  
BLM: Evaluate

29. Which of the following conditions has ***not*** made it increasingly difficult for Canadian firms to make the classical managerial strategy work for them?
- a. Educational levels have increased.
  - b. Globalization has allowed work to be outsourced to a variety of developing countries.
  - c. Economic security and social security have improved.
  - d. Social values have become more democratic and egalitarian.

ANS: B                    PTS: 1                    REF: 49                    OBJ: 8  
BLM: Understand

30. Which of the following actions is ***not*** a current trend in compensation practices?
- more noncash employee recognition programs
  - increased use of contingent workers
  - expanded use of hourly pay
  - flexible benefit plans

ANS: C                      PTS: 1                      REF: 52                      OBJ: 8  
BLM: Understand

## SHORT ANSWER

1. Explain the concept of organizations as systems.

ANS:

By looking at organizations in a very general sense, as systems, and understanding the dynamic nature of organizational processes, we can begin to put strategic compensation in context within the organization. An organization can be described as a system that applies procedures to a set of input resources (or raw materials) including human, information, physical, and financial to transform these inputs into valued outputs. Productivity, defined from a systems perspective as the ratio of an organization's outputs to its inputs, increases as an organization finds new ways to use fewer resources to provide its outputs.

PTS: 1                      REF: 25                      OBJ: 2

2. What is the purpose of the strategic framework for compensation?

ANS:

There is no such thing as "one best" compensation system that fits all organizations. The most appropriate compensation system for an organization is one that fits the key characteristics of that organization. The strategic framework for compensation provides a model to help us understand the context variables, managerial strategy and structural variables of an organization and build an effective compensation system.

PTS: 1                      REF: 27                      OBJ: 3

3. Identify the six structural variables that make up the organization structure and explain why they are so important.

ANS:

The six structural variables (or dimensions) are job design, coordination and departmentation, decision-making and leadership structure, communication and information structure, control structure, and the reward system. These variables act as levers to produce the behaviour desired by the organization. All of these structural variables are interrelated and must fit together for an organization to be effective. To identify the managerial strategy that a firm is actually using, it is necessary to examine the structural variables.

PTS: 1                      REF: 27                      OBJ: 4

4. Briefly explain the difference between the three managerial strategies described in the text.

ANS:

Although the six structural variables can be designed and combined in a number of ways, the following three main patterns of structural variables, known as “managerial strategies, have formed. The classical approach to management assumes people are lazy, dislike work, and need to be motivated to work by financial rewards or the threat of removal of these rewards. Jobs are narrowly designed and employees closely supervised. The human relations approach assumes most employees dislike work but can be induced to work in order to satisfy their social needs, which results in a different approach to leadership, communication, control, and rewards from the classical approach. Supervisors are controlling, but employee-oriented using a paternalistic style. High involvement management assumes people are motivated by the intrinsic rewards flowing from interesting and challenging work, and varies on all six structural variables from the other two managerial strategies.

PTS: 1                      REF: 29                      OBJ: 5

5. What are the five contextual variables and why are they important?

ANS:

Determined by organizational goals, the five contextual variables are the organization’s task environment and domain, corporate strategy, technology, organization size, and work force. These factors in the firm’s context determine the most appropriate managerial strategy and structure for the organization (which includes the reward system). A change in any factor may trigger a need to change the managerial strategy and the structural variables.

PTS: 1                      REF: 39                      OBJ: 6