Undergraduate Distance Education Review Form

(Required for all courses taught by distance education for more than one-third of teaching contact hours)

Existing and Special Topics Course

APR 19 20..

TITLE of PROPOSAL: Compensation Management (MGMT 400)
DEPARTMENT: Management   PERSON: Dr. Fred Slack

Step One: Department or its Curriculum Committee
The committee has reviewed the proposal to offer the above course using distance education technology, and responds to the CBA criteria as follows:

1. Will an instructor who is qualified in the distance education delivery method as well as the discipline teach the course?   X Yes   ___ No

2. Will the technology serve as a suitable substitute for the traditional classroom?   X Yes   ___ No

3. Are there suitable opportunities for interaction between the instructor and student?   X Yes   ___ No

4. a. Will there be suitable methods used to evaluate student achievement?   X Yes   ___ No

   b. Have reasonable efforts been made to insure the integrity of evaluation methods (academic honesty)   X Yes   ___ No

5. Recommendation:
   X Positive   (The objectives of the course can be met via distance education.)
   _____ Negative

   _____   4/14/05
   signature of department designee   date

If positive recommendation, immediately forward copies of this form and attached materials to Provost and Graduate Committee. Dual-level courses also require review by UWGC for graduate-level offering. Send information copies to 1) dean of the college, 2) Dean of Continuing Education and 3) Dean of Graduate School and Research.
Forward this form to the Provost within 24 calendar days after receipt by committee.

Step Two: UNDERGRADUATE COMMITTEE

X Positive recommendation

____ Negative recommendation   _____   4/21/05
                                      signature of committee chair   date

Forward this form to the Provost within 24 calendar days after review by committee.

Step Three: Provost
___ Approved as distance education course

____ Rejected as distance education course   _____   4/22/05
                                                 signature of Provost   date

Step Four:
Forward materials to Dean of the School of Continuing Education, who will inform appropriate offices.

CBA Questions Pertaining to Online Courses

1. The instructor teaching this course has taught two online courses at the undergraduate level. The instructor has graduate teaching eligibility and has been teaching at the graduate level at various universities for more than twenty five years. The instructor has engaged in extensive research in the area of compensation and has conducted workshops for more than 100 organizations over the past twenty-five years in the area of compensation.

2. Technology will certainly help in this type of course since a majority of the learning takes place with the help of moderated discussions and dialogue sessions. WebCT provides the opportunity for both synchronous and asynchronous communication between students and faculty. Also, the online format is better suited for adult learners and working professionals.

3. There are ample opportunities for interaction between students and the instructor as well as among students — e.g., chat sessions, e-mail, discussions, etc.

4. (a) The evaluation will be very similar to a classroom. The discussion papers and assignments will be submitted as attachments. Participation will be evaluated based on the students' active involvement (both quality and quantity) in discussions and chat sessions.

   (b) With the experience of teaching two online courses, the instructor has developed strategies to ensure integrity, such as the establishment of quizzes and tests that have white font on black background, decreasing the likelihood that a student will print out a quiz or test and share it with a student who has yet to take the quiz or test.

MGMT 400 Compensation Management – Distance Education (3 credits) Fall 2005
Prerequisites: MGMT 300 Human Resource Management, Junior Standing, Eberly College of Business & Information Technology

IMPORTANT

Please read the entire syllabus thoroughly to understand the nuances of the Distance Education class; the first quiz is based on your understanding of the syllabus.

Access to the WebCT Course

- To access WebCT for this course, please go to www.iup.edu/webct
- Your WebCT username as well as your initial password is the same as your four-character IUP e-mail user-name (if you have used WebCT before, you must continue to use the password from the past). The first-time WebCT users will be required to reset their passwords. It is highly recommended that you select a password that is not very easy to guess. Please do not reveal your password to anyone.

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Instructor: Office: Telephone: E-mail:	Frederick J. Slack, Ph.D 308-M Eberly College of Business & Information Technology 724-357-7737 (office) 724-357-5743 (Fax) fslack@iup.edu
Office Hours:	One on-line chat session or open discussion will be conducted on each chapter (timing will be announced each week.) Tuesday: 3:00 – 5:00 p.m. Wednesday: Noon – 2:00 p.m. Thursday: 3:00 – 4:00 p.m. Others by appointment

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Text, Catalog Description and Course Objectives

Text:

Milkovich, George, T. and Jerry M. Newman, Compensation, (Eighth Edition), New York: Irwin/McGraw-Hill, 2005.

Catalog Description:

Studies the policies and programs that help managers design and administer compensation systems for private and public sector enterprises. Includes motivation theories and practice designing of compensation systems. MGMT 300 Human Resource Management, Junior Standing, Eberly College of Business & Information Technology.

Course Objectives:

This course in compensation management focuses upon the various activities which relate to the direct and indirect payment made to employees for their services. The course enables the student to develop an understanding of compensation objectives. The course emphasizes the theories and the practices in the remuneration of employees so that the student can develop an effective compensation system as part of an integrated human resources management system of an organization in an ever changing global environment.

It is expected that by the end of the course the student should be able to:

1) recognize the interaction between compensation and other HRM functions;

2) discuss the influence of various factors, including labor unions, government, organizational policies and international considerations, on compensation practices;

3) analyze jobs, write job descriptions and perform job evaluations for a variety of jobs using different methods;

4) undertake a pay survey and develop a pay structure;

5) describe various pay-for-performance programs;

6) isolate the differences in compensation opportunities for employees in different jobs or levels in the organization and in different countries;

7) discuss the issues involved in managing a compensation program, and

8) develop a compensation program to meet specified objectives.

Teaching Methods

The distance education section will utilize WebCT for facilitating student learning. Students may be required to participate in course discussions in asynchronous (threaded discussion) as well as synchronous (live chat) modes. Quizzes and exams will be conducted on-line. Students are expected to read the relevant parts of the chapter from the book (check course outline) as well as any additional online resources made available by the instructor on WebCT. At the end of each chapter, there may be a discussion, chat, quiz and/or an assignment as indicated in the outline and announced on the course calendar within WebCT.

Evaluation, Exams and Quizzes

Evaluation:

Exams (4)	15% each	60 %
Quizzes (5)	2 % each	10 %
Assignments		10 %
Online participation		10 %

Grade Distribution: > 90%--A; 80-89.99%--B; 70-79.99%--C; 60-69.99%--D; < 60%--F
Grades will be available for review in WebCT throughout the semester.

Exams:

Exams will be cumulative (although a majority of the questions will be on the new material since the previous exam). A comprehensive/cumulative makeup examination will be scheduled toward the end of the semester only upon requests from the student(s) requiring it. It can replace a maximum of one missed exam and will be held on campus (not online). Therefore, please don't miss on-line exam timings for trivial reasons. If you must miss an exam because of emergencies, a make up opportunity (online, on the same exam material) may be provided at a mutually convenient time within 5 calendar days of the original exam. However, those emergencies must be substantiated (examples of acceptable proof: record of doctor visit; etc.)

Exams will consist of objective questions numerical problems, short written answers, mini-cases, etc.

Dates for exams are listed in the outline section and will be posted on the course calendar on WebCT.

Quizzes:

There will be a number of quizzes during the semester (5 quizzes). Dates for quizzes are listed in the outline section.

Assignments:

There will be approximately two assignments during the semester graded on a scale of 10 points. Dates for assignments will be listed in the course calendar.

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Participation:

Participation will occur in the following manner:

General Discussion (Threaded Discussion) Every student is encouraged to post discussion topics pertaining to the course content, answer each other's questions, debate on course-related topics, etc. These discussions are open to the entire class and therefore post your messages in the appropriate category. You will be graded based on your ability to generate discussions as well as your meaningful participation in others' discussion topics. It is important that you read the discussions and do not create a new thread on a topic for which a thread already exists; this will keep discussions well organized.

You are also encouraged to participate in the following ways (non-graded):

Chat Sessions with the Instructor: Within each chapter, there will be a 30-minute chat room session or extended discussion for which the instructor will be available. You may use that time to clarify your questions. The times for each chat session will be announced a week in advance. Attendance in chat sessions is similar to visiting a professor during office hours as needed and asking pertinent questions.

Chat Sessions Among Students: Two or more students can plan and meet online to chat among themselves to clarify and discuss any course-related topics. This works like study groups and can be especially useful to prepare for quizzes and tests.

E-mail: Students can send messages within WebCT (unless you cannot access WebCT for some reason) to the instructor if they have any questions that do not pertain to other students in the class.

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Important Points Related to Course Policy

Printing of quizzes and exams is NOT allowed; through WebCT it is possible to identify if you have attempted to print a quiz or exam. Printing of a quiz or exam will result in a failing grade. However, printing lecture notes, homework assignments, etc. is encouraged.

Exams and quizzes are expected to be closed book; however you may keep a sheet of compensation formulas and equations as needed.

Be aware that distance education classes take substantially more time and effort than traditional classes, especially if you are not organized and do not manage your time properly!

Log on to WebCT and check your e-mail and the course calendar on a regular basis.

Do change your password. If you leave/reset your password to be the same as your username, you can get in some difficulties (as everyone knows your username). For example, someone may log into your account with a criminal intent, such as peeking at a quiz before taking the quiz in one's own. When you log in later to take the quiz, the clock would already be ticking and immediately you would get a message indicating you are out of time.

Do not set your password to be the same as your username.

Study the chapter lecture notes on WebCT and the corresponding sections of the textbook chapter. At the end of each chapter, you will be responsible for discussion, chats, quizzes or assignments (please see the course calendar for details. Any changes in schedule will be announced by e-mail). If you have questions, first, go to the threaded discussion part of WebCT. (Menu path: home page®communication®conference) and see if your question has already been answered (either by the instructor or by your peers). If your question has not been answered, compose and post a question under the appropriate Topic (Chapter #), provide a brief subject and create your message. If your question builds on a topic that is being (or has been) discussed, use the appropriate thread (topic and subject). If it is a mathematical compensation problem, you can also attach a file with your message. After giving time for your peers to answer your question, the instructor will either confirm the answer and/or clarify the answer.

Send a (private) WebCT e-mail to the instructor only if you have a question/ communication that involves just you. For example, if you are traveling, you are sick, etc.

Within each chapter, there will be a chat room or discussion session for which the instructor will be available (Menu path: home page®communication®chat®Office hour). You may use that time to clarify your questions. The times for each chat session or discussion will be announced on a weekly basis and will be rotated to hopefully accommodate varying time schedules of students. Attendance in chat room sessions is similar to visiting the instructor during office hours as needed and asking pertinent questions.

Online submission of assignments must be done before 11:55 p.m. (Eastern Time) on the due date. On-line quizzes and exams will be made available approximately 48 hours before their due dates. For example, if the due time is Friday 11:55 p.m. (before midnight), the quiz or exam will be made available at midnight on Thursday morning. Make sure that you provide for enough time on the due dates of quizzes and exams. For example, quizzes may require 10 minutes to complete and exams may need 1½ hours to complete. That means you have to start the exam at the latest by 10:25 p.m. on the due date to have the entire 1.5 hours available to you. But it is recommended that you do it much earlier in the day since

you may encounter technical problems at your end — e.g., ISP being down, computer hardware problem, no computer availability in lab, power outage, etc.

While taking a quiz or exam, do not rely on the "time remaining indicator" in WebCT; it gets updated only when you save your answers. (Keep a wrist watch or a clock with you to pace yourself during exams and quizzes).

Check the due dates for the exams, assignments and quizzes on the syllabus and course calendar on WebCT.

Late assignments will not be accepted, unless prior arrangement has been made. ONLY for the quiz that is based on your understanding of the syllabus, you will be allowed two attempts and the best score will be kept. Please understand, the questions during your second attempt may be different from the ones from the first attempt.

Maintain integrity and adhere to computer ethics (http://www.fau.edu/netiquette/net/ten.html) Maintain web netiquette, e.g., read some rules at http://randomnetstuff.com/netiquette.html or take this interesting quiz to see how much you know about netiquette at http://www.albion.com/netiquette/netiquiz.html.

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Tentative Course Outline With Some Due Dates

Week of:	Topic	Chapter
8/29	Introduction	--
	The Pay Model (Discussion or Chat due by 9-2)	Chapter 1
9/5	Strategic Perspectives	Chapter 2
	Quiz 1 (9/8-9) (Discussion or Chat due by 9-9)	
9/12	Defining Internal Alignment	Chapter 3
	(Discussion or Chat due by 9-16)	
9/19	Job Analysis	Chapter 4
9/26	Job Analysis (continued) (Discussion or Chat due by 9-30)	Chapter 4
	(Assignment 1 due 9/30) Quiz 2 (9/29-30)	
10/3	**Exam 1 (10/3-4)**	**Chapters 1-4**
	Evaluating Work: Job Evaluation	Chapter 5
10/10	Evaluating Work: Job Evaluation (continued)	Chapter 5
	(Discussion or Chat due by 10-12)	
	Quiz 3 (10/13-14)	
	Person Based Structures (Discussion or Chat due by 10-14)	Chapter 6
10/17	Defining Competitiveness (Discussion or Chat due by 10-21)	Chapter 7
	Quiz 4 (10/20-21)	
10/24	Designing Pay Levels, Mix and Pay Structures	Chapter 8
	(Discussion or Chat due by 10-28)	
	(Assignment 2 due 10/28)	
10/31	**Exam 2 (10/31-11-1)**	**Chapters 5-8**
	Pay for Performance: The Evidence	Chapter 9
	(Discussion or Chat due by 11-4)	
11/7	Pay for Performance Plans	Chapter 10
	Performance Appraisals	Chapter 11
	(Discussion or Chat due by 11-11)	
	Quiz 5 (11/10-11)	
11/14	Employee Benefits	Chapter 12-13
	(Discussion or Chat due by 11-18)	
11/21	**Thanksgiving Break**	

11/28	Compensation of Special Groups (Discussion due by 12-2) Chapter 14	
12/5	**Exam 3 (12/5-6)**	**Chapters 9-14**
12/12	**Final Examination**	**Comprehensive Chapters 1-14**

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Topics

Introduction and the Pay Model (1 week)

Overview of Compensation Management and its relationship to principles of management and human resource management is discussed.

Strategic Perspectives (1 week)

The Pay Model addressing sound salary administration of internal equity, external competitiveness, pay for performance, and administration.

Defining Internal Alignment and Work Analysis (3 weeks)

Internal alignment is viewed as internal equity; providing for the establishment of pay structures which recognize differences between expected employee contributions within the organization.

Defining Competitiveness (4 weeks)

The importance of external competitiveness to the pay model; factors that influence external competitiveness; the differences between labor market, product market, and organizational factors in determining external competitiveness; and different pay policy positions and the consequences of using each.

Pay for Performance (2 weeks)

Relevance of content theories of motivation to compensation; VIE theory and how the theory can be used to show that linking pay to performance may increase performance; the important design issues in creating a pay for performance program.

Employee Benefits (1 week)

Importance of benefits in a total compensation program; reasons for growth in employee benefits; important issues in benefit planning, design and administration; the relationship between benefits and external equity; and the advantages of flexible benefits programs in terms of employee satisfaction and cost containment.

Compensation of Special Groups (1 week)

Compensation strategies for special groups such as executives, senior management, middle management, first-line supervisors and the overall employee population; administration and government influences on administration are presented.

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Bibliography

Clutterbuck, David and Stuart Crainer, Makers of Management Men and Women Who Changed the Business World, London: MacMillan London Limited., 1990.

Henderson, Richard I., Compensation Management in a Knowledge-based World, (Ninth Edition), Upper Saddle River, New Jersey: Prentice-Hall, Inc., 2003.

Hodge, B. J. and William P. Anthony, and Lawrence M. Gales, Organization Theory: A Strategic Approach, (Sixth Edition), Upper Saddle River, New Jersey: Prentice-Hall, Inc., 2003.

Kay, Ira, T., Value at the Top, Solutions to The Executive Compensation Crisis, New York: HarperCollins Publishers, Inc., 1992.

Martocchio, Joseph J., Strategic Compensation, A Human Resource Management Approach, (Third Edition), Upper Saddle River, New Jersey: Prentice-Hall, Inc., 2004.

Rock, Milton L., Handbook of Wage and Salary Administration,, (Second Edition), New York: McGraw-Hill, 1984.

1) **There will be absolute enforcement of every prerequisite requirement for the coursework offered by the Eberly College of Business and Information Technology**

2) **The course withdrawal deadline is Friday, November 4, 2005**

3) **The sequence of topical coverage as listed in the syllabus may be altered.**

Slide 1

COMPENSATION
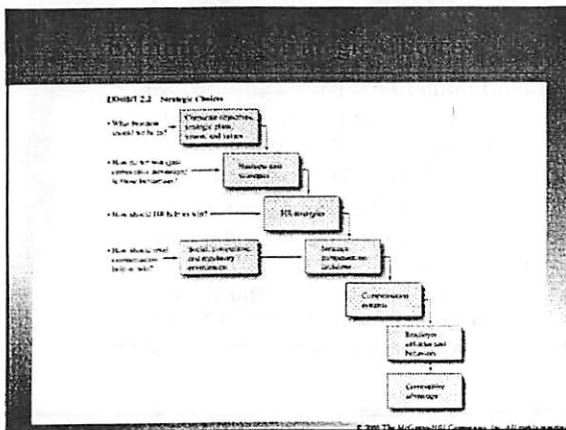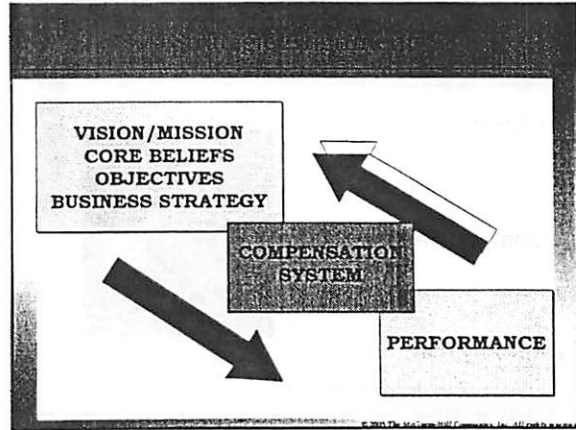
MILKOVICH & NEWMAN

Slide 2

Slide 3
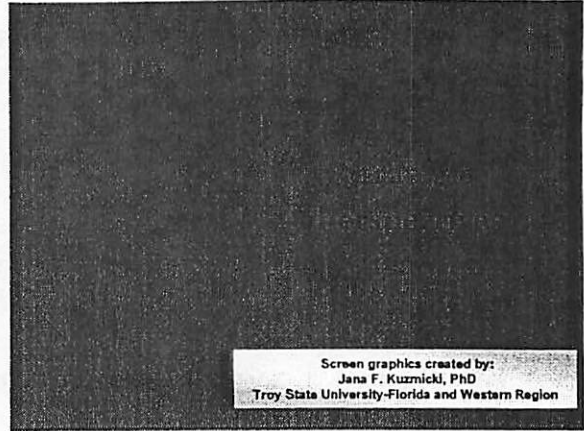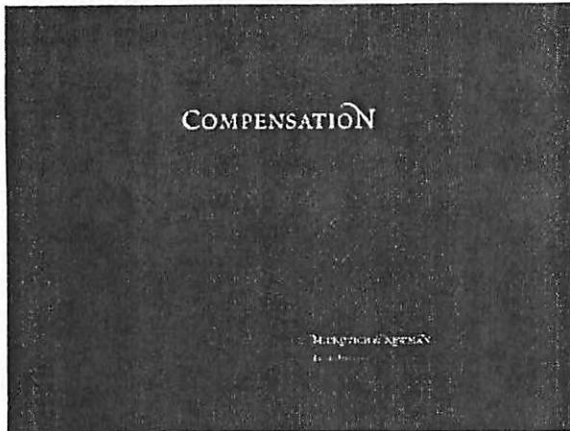
1. Explain the idea of a strategic perspective to compensation.
2. Identify the five dimensions of a compensation strategy and how a compensation strategy can support an organization's strategy.
3. Understand the four steps involved in developing a total compensation strategy.
4. Discuss how three tests can be used to determine if a pay strategy can be a source of competitive advantage.
5. Describe the key arguments related to the two approaches – best-fit vs. best-practices – in developing a compensation strategy and system.

Slide 4

◆ Strategic Perspective
◆ Support Business Strategy
◆ Which Pay Decisions are Strategic?
◆ Developing a Total Compensation Strategy
◆ Source of Competitive Advantage: Three Tests
◆ "Best Fit" versus "Best Practices"
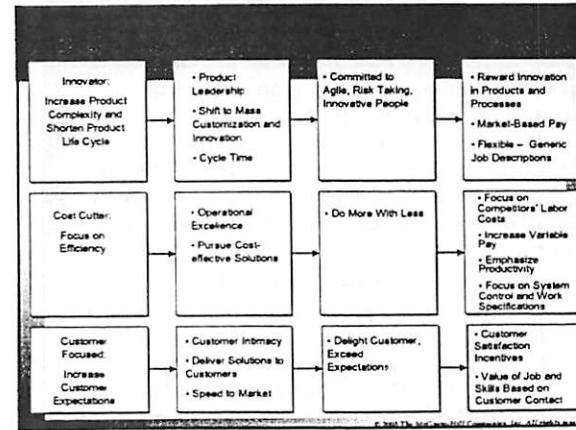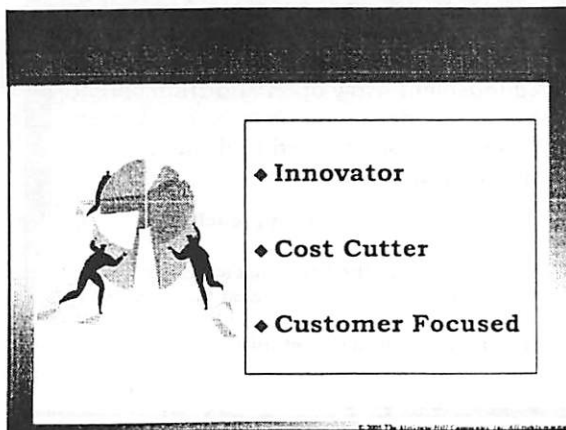◆ So What Matters Most - Best Practices or Best Fit?

Slide 5

The strategic perspective involves thinking about how pay can assist in achieving organization success, while not being fixated on pay techniques.

Slide 6

Objectives	• Support the business objectives • Support recruiting, motivation, and retention of MS-caliber talent • Preserve MS core values	• Support business mission and goals • Develop global leaders at every level • Reinforce team-based culture • Reduce costs, increase productivity	• Demonstrate respect for individual talent and the limitless potential of a highly motivated team • Encourage high standards of excellence, original thinking, a passion for the process of discovery and a willingness to take risks • Reward fresh ideas, hard work and a commitment to excellence • Value diverse perspectives as a key to discovery
Internal Alignment	• Integral part of MS culture • Support MS performance driven culture • Business/technology-based organization design structure	• Flexibility for development and growth • Reflect responsibilities, required competencies, and business impact	• Pay differences that foster a collegial atmosphere • Reinforce high expectations

Slide 1

Externally Competitive	• Lead in total compensation • Lag in base pay • Lead with bonuses, stock options	• Compare favorably to higher-performing competitors • Cash between the 50th and 75th percentile	• Demonstrate respect for individual talent and the limitless potential of a highly motivated team
Employee Contribution	• Bonuses and options based on individual performance	• Support high performance, leadership culture • Team-based increases • Options align employee and shareholder interest • Tailor to business and team results	• Bonus pool based on Firepond financial performance. Individual share of pool based on individual performance • Push stock ownership deep into company
Administration	• Open, transparent communications • Centralized administration • Software supported	• Performance and leadership feedback – everyone is a leader • Administrative ease	• Goal-focused, team-oriented, and self-managed

Slide 2

VISION/MISSION
CORE BELIEFS
OBJECTIVES
BUSINESS STRATEGY

COMPENSATION SYSTEM

PERFORMANCE

Slide 3

EXHIBIT 2.2 Strategic Choices

Slide 4

EXHIBIT 2.3 IBM's Strategic Principles and Priorities

Source: Adapted from IBM's 2002 IBM Corporation.

Principles
1. The marketplace is the driving force behind everything.
2. At our core, we are a technology company with an overriding commitment to quality.
3. Our primary measures of success are customer satisfaction and shareholder value.
4. We operate as an entrepreneurial organization with a minimum of bureaucracy and a never-ending focus on productivity.
5. We never lose sight of our strategic vision.
6. We think and act with a sense of urgency.
7. Outstanding, dedicated people make it happen, particularly when they work together as a team.
8. We are sensitive to the needs of all employees and to the communities in which we operate.

Priorities
1. Delivering business value.
2. Offering world-class open infrastructure.
3. Developing innovative leadership technology.
4. Exploiting new profitable growth opportunities.
5. Creating brand leadership and a superior customer experience.
6. Attracting, nurturing and retaining the best talent in our industry.

Slide 5

◆ Innovator

◆ Cost Cutter

◆ Customer Focused

Slide 6

Innovator: Increase Product Complexity and Shorten Product Life Cycle	• Product Leadership • Shift to Mass Customization and Innovation • Cycle Time	• Committed to Agile, Risk Taking, Innovative People	• Reward Innovation in Products and Processes • Market-Based Pay • Flexible – Generic Job Descriptions
Cost Cutter: Focus on Efficiency	• Operational Excellence • Pursue Cost-effective Solutions	Do More With Less	• Focus on Competitors' Labor Costs • Increase Variable Pay • Emphasize Productivity • Focus on System Control and Work Specifications
Customer Focused: Increase Customer Expectations	• Customer Intimacy • Deliver Solutions to Customers • Speed to Market	• Delight Customer, Exceed Expectations	• Customer Satisfaction Incentives • Value of Job and Skills Based on Customer Contact

- ◆ Objectives
- ◆ Alignment
- ◆ Competitiveness
- ◆ Contributions
- ◆ Management

◆*Objectives*: How should compensation support business strategy and be adaptive to the cultural and regulatory environment?

Starbucks' Objectives

➢Grow by making employees feel valued.

➢Recognize that every dollar earned passes through employees' hands.

➢Use pay, benefits, and opportunities for personal development to help gain employee loyalty and become difficult to imitate.

◆*Alignment*: How differently should the various types and levels of skills be paid within the organization?

Starbucks' Approach

➢De-emphasize differences.

➢Use egalitarian pay structures, cross-train employees to handle many jobs, and call employees partners.

◆*Competitiveness*: How should total compensation be positioned against our competitors? What forms of compensation should we use?

Starbucks' Approach

➢Pay just slightly above other fast-food employers.

➢Provide health insurance and stock options for all employees (including part-timers).

➢Give everyone a free pound of coffee every week.

◆*Contributions*: Should pay increases be based on individual and/or team performance, on experience and/or continuous learning, on improved skills, on changes in cost of living, on personal needs, and/or on each business unit's performance?
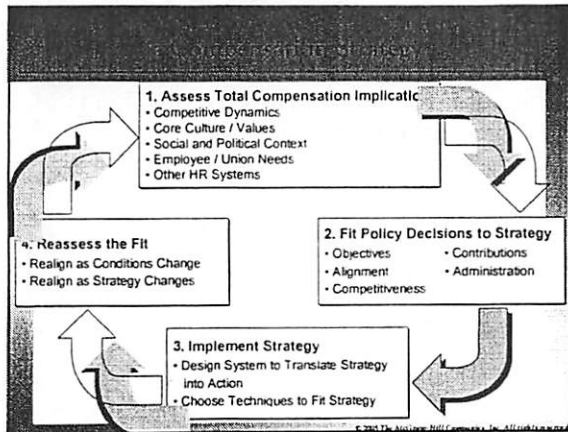
Starbucks' Approach

➢Emphasize team performance and shareholder returns.

➢For new managers in Beijing and Prague, provide training opportunities in the U.S.

◆*Management*: How open and transparent should pay decisions be to all employees? Who should be involved in designing and managing the system?

Starbucks' Approach

➢As members of the Starbuck's "family," our employees realize what is best for them.

➢Partners can and do get involved.

Slide 1

1. Assess Total Compensation Implications
- Competitive Dynamics
- Core Culture / Values
- Social and Political Context
- Employee / Union Needs
- Other HR Systems

4. Reassess the Fit
- Realign as Conditions Change
- Realign as Strategy Changes

2. Fit Policy Decisions to Strategy
- Objectives
- Alignment
- Competitiveness
- Contributions
- Administration

3. Implement Strategy
- Design System to Translate Strategy into Action
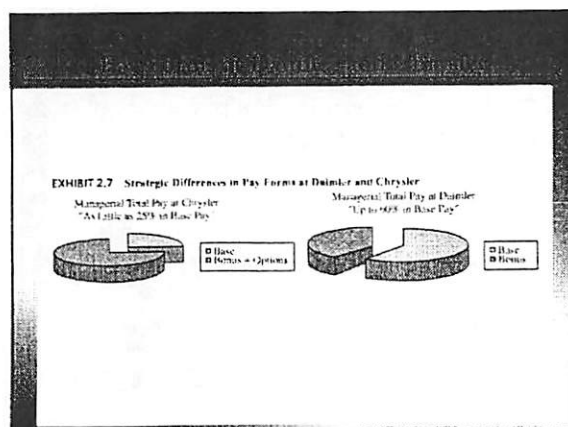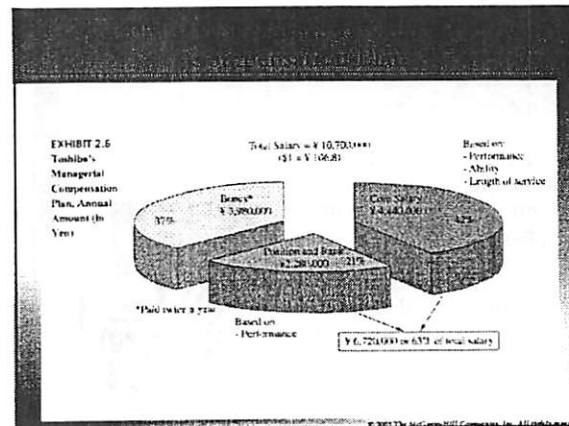- Choose Techniques to Fit Strategy

Slide 2

- ◆ Before any new compensation program is designed, there must be a clear understanding by the organization of
  - ➢ Competitive dynamics
  - ➢ Culture/values
  - ➢ Social and political context
  - ➢ Employee/union needs
  - ➢ Customization and flexibility

Slide 3

- ◆ Before any new compensation program is designed, there must be a clear understanding by the organization of
  - ➢ Competitive dynamics
    - → Customer needs
    - → Competitors' actions
    - → Labor market conditions
    - → Regulations
    - → Global environment
  - ➢ Culture/values
    - → A pay system reflects values guiding an employer's behaviors and treatment of employees

Slide 4

EXHIBIT 2.6 Toshiba's Managerial Compensation Plan, Annual Amount (in Yen)

Slide 5

EXHIBIT 2.7 Strategic Differences in Pay Forms at Daimler and Chrysler

Slide 6

- ◆ Before any new compensation program is designed, there must be a clear understanding by the organization of
  - ➢ Social and political context
    - → Legal and regulatory requirements
    - → Cultural differences
    - → Changing work force demographics
    - → Employee values and expectations

Slide 1

◆Before any new compensation program is designed, there must be a clear understanding by the organization of

➢Employee needs

→Contemporary pay systems

→Flexible compensation systems

➢Nature of union-management relationship

Slide 2

◆Before any new compensation program is designed, there must be a clear understanding by the organization of

➢Role of pay in overall HR strategy

→Supporting player

→Agent of change

Slide 3

◆Strategic maps

➢Offer picture of a company's compensation strategy based on the five choices in the pay model

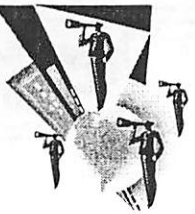➢Clarify message of company in delivering its compensation program

Slide 4

EXHIBIT 2.10
A Contextual Map of Microsoft Compensation Strategy

DIMENSIONS

OBJECTIVES

ALIGNMENT

COMPETITIVENESS

EMPLOYEE CONTRIBUTIONS

MANAGEMENT

Slide 5

◆Step 3

➢Involves implementing strategy through the design and execution of compensation system

◆Step 4

➢Focuses on reassessing realigning as conditions and strategy changes

◆Managing links between

➢Compensation strategy

➢Pay system and

➢Employee perceptions

→Vital to implementing a pay strategy

Slide 6

◆ Three tests determine if a pay strategy is a source of advantage

➢ Is it aligned?

➢ Does it differentiate?

➢ Does it add value?

Which hat is unique?

Slide 1: Best Fit vs. Best Practice

Best Fit	Best Practices
◆ If design of pay system	◆ Assumptions
➢ Reflects company's strategy and values	➢ A set of best-pay practices exists
➢ Is responsive to employees' needs and	➢ Practices can be applied universally across all situations
➢ Is globally competitive	
→ Company is more likely to achieve competitive advantage	

Slide 2: Exhibit 2.11 Best Practices (?)

The New Pay	High Commitment
● External market-sensitive-based pay, not internal alignment	● High wages: You get what you pay for
● Variable performance-based pay, not annual increases	● Guarantee employment security
● Risk-sharing partnership, not entitlement	● Apply incentives; share gains, not risks
● Flexible opportunities to contribute, not jobs	● Employee ownership
● Lateral promotions, not career path	● Participation and empowerment
● Employability, not job security	● Teams, not individuals are base units
● Teams, not individual contributors	● Smaller pay differences
	● Promotion from within
	● Selective recruiting
	● Enterprise-wide information sharing
	● Training, cross-training, and skill development are crucial
	● Symbolic egalitarianism adds value
	● Long-term perspective matters
	● Measurement matters

Slide 3: Best Practices or Best Fit

◆ Some research supports the "best practices" approach

◆ Some research supports the "best fit" approach

Slide 4: Virtuous and Vicious Circles

EXHIBIT 2.12   Virtuous and Vicious Circles

(a) Virtuous Circle

Organization Performance Increasing — Pay for Performance — Risk-Return Balance — Ownership Culture

Upward Momentum, Continuous Improvement

(b) Vicious Circle

Organization Performance Decreasing — Pay for Performance — Risk-Return Imbalance — Ownership Culture

Downward Momentum, Continuous Difficulties