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## Chapter 2 - A Strategic Framework for Compensation

1. If a particular compensation system has been successful in one organization, it is very likely that replicating that compensation system will bring success in another organization.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

3. An organization's vision refers to its long-term, optimal desired state.

- a. True
- b. False

ANSWER: True

4. Horizontal fit refers to the alignment between an organization's mission, vision and values, and the various supportive strategies that cascade down an organization.

- a. True
- b. False

ANSWER: False

5. An organization's domain is simply another term for managerial strategy or plan.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

7. The classical managerial approach to management assume employees are inherently lazy and require constant vigilance.

- a. True
- b. False

ANSWER: True

8. Narrow jobs characterize high involvement systems.

- a. True
- b. False

ANSWER: False

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9. Group and organizational pay systems characterize firms that use a classical managerial strategy.
- a. True
  - b. False

ANSWER: False

10. Porter offers the notion that business strategies may be divided into two broad dimensions: cost and differentiation.
- a. True
  - b. False

ANSWER: True

11. 3M and Apple have organizational strategies that encourage innovation. As a result, their compensation strategies support innovative behaviours by employees. Which term refers to this alignment of strategies?
- a. tight fit
  - b. loose fit
  - c. horizontal fit
  - d. vertical fit

ANSWER: d

12. The training, compensation, and performance management functions at ABC Inc. are all focused on helping the organization achieve its goals. What is this alignment of strategies called?
- a. cross fit
  - b. functional fit
  - c. horizontal fit
  - d. vertical fit

ANSWER: c

13. 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 provide compensation packages that lead the marketplace.

ANSWER: c

14. What can you determine by examining a firm's contextual variables?
- a. the managerial strategy that a firm is actually using
  - b. the type of structure the organization should be using
  - c. the firm's competitive advantage and required resources
  - d. organizational goals, mission, and vision

ANSWER: b

15. Which term refers to the vehicle used by an organization for executing its business strategy?
- a. its structure
  - b. its culture

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- c. horizontal fit
- d. vertical fit

ANSWER: a

16. As a human resources consultant, you decided to recommend to a business owner that she should use a contingency view to organizational design. In order to support your recommendation, what would you look at first from a business structure perspective?

- a. structural variables
- b. job design variables
- c. financial variables
- d. contextual variables

ANSWER: d

17. Which of the following is a structural variable interrelated with compensation?

- a. business strategy
- b. job design
- c. organization size
- d. technology

ANSWER: b

18. What should an effective organizational structure provide an organization?

- a. It identifies sources of required inputs for an organization.
- b. It reduces internal uncertainty while increasing external uncertainty for an organization.
- c. It increases internal uncertainty while decreasing external uncertainty for an organization.
- d. It decreases both internal and external uncertainty for an organization.

ANSWER: d

19. What can you determine by examining a firm's structural variables?

- a. the managerial strategy a firm is actually using
- b. the managerial strategy a firm should be using
- c. a firm's corporate strategy
- d. the corporate strategy a firm should be using

ANSWER: a

20. Which of the following is classified as a "main" managerial strategy?

- a. job design management strategy
- b. laissez-faire management strategy
- c. transformational management strategy
- d. human relations management strategy

ANSWER: d

21. You have been asked to explain to a manager the notion of structural variables within the context of a strategic framework for compensation. Which variable would you elaborate on?

- a. how work is divided into subtasks

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- b. the market the company serves
- c. the level of differentiation in the products and services offered by the company
- d. the company's products' life cycle

ANSWER: a

22. Which of the following is a contextual variable to consider when deciding on the managerial strategy to be used?
- a. business strategy
  - b. job design
  - c. reward system
  - d. control system

ANSWER: a

23. Which variable indicates to management the most appropriate managerial strategy to use in an organization?
- a. organizational processes
  - b. factors of production
  - c. contextual variables
  - d. structural variables

ANSWER: c

24. What are the two main categories of organizational variables?
- a. contextual and structural
  - b. horizontal and vertical
  - c. classical and human relations
  - d. miles and snow

ANSWER: a

25. You have recently been hired by a manufacturing company in Vancouver, British Columbia. You conclude that the company is using a high-involvement management strategy. What would you review to support your aforementioned conclusion?
- a. structural variables
  - b. organizational policies and procedures
  - c. contextual variables
  - d. behaviours of managers

ANSWER: a

26. Which set of strategies reflects different assumptions about employees and how they should be managed?
- a. classical, human relations, and high-involvement
  - b. low-cost, differentiator, and focused differentiator
  - c. corporate, competitive, and business
  - d. defender, prospector, and analyzer

ANSWER: a

27. Which term best describes the scope of business operations undertaken by an organization?
- a. integration

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- b. differentiation
- c. craft
- d. domain

ANSWER: d

28. Which characteristics are common in a classical organization?

- a. joint employee–management planning and goal setting
- b. intrinsic rewards often being used as a reward system
- c. loyal employees who are dedicated to the norms of the organization
- d. strong management control over employees

ANSWER: d

29. Which rewards are normally associated with a high-involvement managerial strategy?

- a. high levels of pay and benefits
- b. providing employees with the opportunity to grow professionally
- c. providing employees with a pleasant team environment
- d. promotions based on a high level of production

ANSWER: b

30. Which reward strategy is appropriate for companies using a human relations approach to management?

- a. Rewards are mainly extrinsic and focus on loyalty to the organization.
- b. A wide variety of both intrinsic and extrinsic rewards are used.
- c. Only extrinsic rewards are offered.
- d. Only intrinsic rewards are offered.

ANSWER: a

31. Richard, a new employee, is told by a more experienced employee to do only the minimum and not attempt to be a “superstar.” What variable best describes what Richard is experiencing?

- a. engagement
- b. commitment
- c. structure
- d. culture

ANSWER: d

32. Which key cultural value would be detrimental to a high-involvement organization?

- a. honesty
- b. trustworthiness
- c. doing things the way they have always been done
- d. open communication

ANSWER: c

33. Which organizational variable would complement a classical management strategy?

- a. strong policies and procedures dictating work processes
- b. high level of horizontal communication

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- c. significant autonomy given to employees
- d. employee-focused organizational culture

ANSWER: a

34. Marie is the new owner of a large apple farm in British Columbia. She hires seasonal workers to pick apples during the months of October and November each year. Historically, there has been an abundance of labour supply. Which managerial strategy would best fit this farm's situation?

- a. human relations
- b. classical
- c. hybrid
- d. high-involvement

ANSWER: b

35. Which term describes an organization's core values and understandings shared by its members?

- a. organizational structure
- b. organizational culture
- c. organizational domain
- d. organizational strategy

ANSWER: b

36. Which managerial strategy most highly values an organization's culture?

- a. classical
- b. human relations
- c. high involvement
- d. hybrid

ANSWER: c

37. A prospector strategy, short life cycle products, a highly skilled work force, and a relatively small organization would be a good combination of variables for which managerial strategy?

- a. classical
- b. human relations
- c. high-involvement
- d. mechanical

ANSWER: c

38. According to the textbook, which term would best describe an analyzer business strategy?

- a. speed
- b. slow
- c. balance
- d. classical

ANSWER: c

39. Which condition has NOT made it increasingly difficult for Canadian firms to make the classical managerial strategy work for them?

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- 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.

*ANSWER:* b

40. You have been asked to provide some element of rationale why some companies using a human relations strategy sometimes attempt to change to a more classical framework. Which statement would best describe the most important issue associated with your explanation?

- a. It is simply very hard on management to pursue a human relations strategy.
- b. There is pressure from owners to increase profitability.
- c. Companies fail to react fast enough to changes in the environment.
- d. Greater worker mobility makes a human relations strategy obsolete.

*ANSWER:* c

41. Explain the concept of fit.

*ANSWER:* Fit is an important concept in strategic management. It refers to the alignment of strategies at various levels in an organization. There are two related concepts: vertical and horizontal fit, or vertical and horizontal integration. Vertical fit refers to the alignment between an organization's mission, vision and/or values, and the various supportive strategies that cascade down an organization. Horizontal fit refers to the alignment between and among strategies at the same level; for instance, HRM strategies such as performance management and compensation are aligned or support each other.

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

*ANSWER:* 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.

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

*ANSWER:* 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.

44. Briefly explain the difference between the three managerial strategies described in the textbook.

*ANSWER:* 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 that 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 that people are motivated by the intrinsic rewards flowing from interesting and challenging work, and it differs from the other two managerial strategies in all six structural variables.

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

*ANSWER:* 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.