

Chapter 9 - Managing Compensation

1. Some organizations can choose a strategy to pay higher than market wages and salaries. Which of the following will this likely help them do?
- be more selective in their employee hiring
 - reduce their direct labour costs
 - reduce their indirect labour costs
 - achieve pay equity between men and women

ANSWER: a

2. Which of the following is an example of nonfinancial compensation?
- bonuses
 - employee recognition programs
 - health insurance
 - incentives

ANSWER: b

3. Which of the following is **NOT** a component of direct compensation?
- incentives
 - wages
 - benefits
 - commissions

ANSWER: c

4. Assume Microsoft wants to link its overall organizational strategy to its wage and benefit policies in the strategic plan. How can the company best do this?
- through the development of better performance standards
 - through following federal strategic planning legislation
 - through adhering to Harvard University's Professor Porter model
 - through formalized compensation goals

ANSWER: d

5. Both Sam and Samantha work as cashiers at Modelo Hot Dogs. They do work of equal value to the firm, yet Sam receives less pay than Samantha. Sam is not happy because he perceives the system as being unfair to him. Which theory can you use to explain Sam's perceptions?
- reverse discrimination theory
 - pay equity theory
 - expectancy theory
 - equity theory

ANSWER: d

Chapter 9 - Managing Compensation

6. Which term refers to the concept of equal pay for work of equal value?
- equal pay
 - comparable pay
 - compensable factor
 - pay equity

ANSWER: d

7. Expectancy theory posits that there are three conditions that must be met for employees to be motivated through rewards. Which is the following is NOT one of these conditions?
- high motivation need
 - high instrumentality
 - high expectancy
 - high valence

ANSWER: a

8. One theory of motivation is based on the proposition that employees would exert greater work effort if they have reason to anticipate it (their effort) will result in a valued reward. What is this theory?
- instrumentality theory
 - equity theory
 - expectancy theory
 - internal equity theory

ANSWER: c

9. Sarah, Tariq, and Tatiana's compensation packages are calculated and paid on the basis of weekly, biweekly, or monthly periods, respectively. How would you classify these employees?
- white-collar employees
 - part-time employees
 - hourly employees
 - salaried employees

ANSWER: d

10. What is a key implication of expectancy theory when applied to pay systems?
- Employees must get pay raises to cover increased living costs.
 - Employees expect their managers to be competent.
 - Employers expect their employees to be competent.
 - Rewards must be valuable for motivation to occur.

ANSWER: d

Chapter 9 - Managing Compensation

11. Vidya works at Paymore Shoes and is paid for time she works in the store. How would you classify Vidya?
- a salaried employee
 - an hourly employee
 - an exploited employee
 - a white-collar employee

ANSWER: b

12. Which of the following is a firm's internal factor that can influence the rates at which employees are paid?
- labour market conditions
 - collective bargaining
 - the cost of living
 - the employer's strategy

ANSWER: d

13. Which of the following is an external factor that can influence the rates at which employees are paid?
- collective bargaining
 - the employer's ability to pay
 - the employees' relative worth
 - the worth of the job

ANSWER: a

14. How would you describe "an increase in real wages"?
- an increase in wages over the Consumer Price Index
 - an increase in wages and benefits
 - an increase in the monetary proportion of the compensation package
 - an increase in collectively bargained wages

ANSWER: a

15. In collective agreements, what are escalator clauses associated with?
- predetermined fixed increases in pay year-over-year
 - a cost of living adjustment
 - job evaluations
 - succession planning

ANSWER: b

Chapter 9 - Managing Compensation

16. Which of the following clauses are found in some labour agreements that periodically adjust compensation rates to reflect increases in cost of living?
- maintenance clauses
 - escalator clauses
 - roll-up clauses
 - guarantee clauses

ANSWER: b

17. For real wages to increase, what is necessary?
- An employee's wage increase must be greater than the increase in the CPI.
 - An employee must receive a lump-sum wage increase equal to the increase in the CPI.
 - An employee's wage must simply increase.
 - The CPI must increase at least as much as the employee's wage.

ANSWER: a

18. What is the scope of the impacts of collective bargaining agreements?
- They extend beyond the segment of the labour force that is unionized.
 - They are restricted to hourly employees only.
 - They are restricted to members of the union.
 - They are restricted to both exempt and non-exempt employees.

ANSWER: a

19. Which of the following issues does job evaluation helps to address?
- issues dealing with employees' need for pay that is equal to their financial needs
 - issues dealing with employers' perceptions of the labour market
 - issues dealing with employers' need to match the market pay
 - issues dealing with employees' perceptions of equity

ANSWER: d

20. Which of the following is the simplest job evaluation system?
- job ranking
 - point method
 - job classification
 - work valuation

ANSWER: a

Chapter 9 - Managing Compensation

21. Which of the following is **NOT** a method of comparison used in job evaluation?
- a. point system
 - b. job ranking system
 - c. job classification system
 - d. comparable worth system

ANSWER: d

22. Which of the following is job classification often used to help determine pay for?
- a. merit bonuses
 - b. the company's CEO
 - c. classified university professors' jobs
 - d. government jobs

ANSWER: d

23. Which of the following is a relatively new job evaluation system?
- a. job classification system
 - b. job ranking
 - c. the point system
 - d. work evaluation

ANSWER: d

24. To help achieve internal equity, factors such as skills, effort, responsibilities, and working conditions may be used to assess jobs. What do we call these factors?
- a. job specifications
 - b. job classification factors
 - c. compensable factors
 - d. factor comparisons

ANSWER: c

25. According to the textbook, which job evaluation method is considered the most valid?
- a. job ranking
 - b. the classification method
 - c. the point method
 - d. the factor comparison method

ANSWER: c

Chapter 9 - Managing Compensation

26. Using the point manual, how is the relative worth of a job determined?
- a. by benchmarking jobs contained in the point manual
 - b. through the wage mix
 - c. by the number of steps within the pay grade
 - d. by the total points that have been assigned to that job

ANSWER: d

27. ABC Corporation uses a job evaluation system that links the value of jobs directly with the goals of the organization. Which job evaluation system is most likely being used by ABC Corporation?
- a. work evaluation
 - b. goal setting
 - c. point method
 - d. goal system

ANSWER: a

28. What types of jobs are usually evaluated using the Hay profile method?
- a. executive and managerial
 - b. administrative and technical
 - c. information technology and manufacturing
 - d. sales and accounting

ANSWER: d

29. Crystal Ball Inc. is a large information technology firm with many levels of management. The company would like to compensate its managers on factors such as knowledge and accountability. Which system would you recommend?
- a. market pricing
 - b. the Hay profile method
 - c. job classification as implemented in Microsoft
 - d. work valuation

ANSWER: b

30. In geography, the water catchment area or watershed refers to the area that channels or supplies a specific area with its water. Catchment areas divide drainage basins. In wage surveys, what is this catchment area similar to?
- a. the labour market
 - b. the region
 - c. the recruiting area
 - d. the supply region

ANSWER: a

Chapter 9 - Managing Compensation

31. What's a key objective of wage and salary surveys?
- to help with job evaluations
 - to help achieve gender pay equity
 - to validate performance appraisals
 - to help achieve external equity

ANSWER: d

32. Which of the following is a potential problem of wage and salary surveys?
- The jobs in the surveys may not match those in the organization.
 - They are discriminatory.
 - They exclude key administrative jobs.
 - They do not capture key sectoral data.

ANSWER: a

33. What type of jobs do companies normally use to collect wage survey data?
- key jobs
 - low-rated jobs
 - high-rated jobs
 - strategic jobs

ANSWER: a

34. In developing a wage curve, what are market wage rates plotted against?
- job evaluation points
 - employee benefits
 - the size of a firm
 - employee wages and salaries

ANSWER: a

35. Accounting clerks, pay clerks, and junior secretaries are all classed in Grade 2 at Metroland Inc. Which of the following should apply to all these jobs?
- They should all receive the same wage rate in order to achieve equality.
 - They should be paid within the same pay range.
 - They should be paid similar to Grade 2 jobs at McDonald's.
 - They should be paid at different wage rates because the worth of these jobs to the organization may differ.

ANSWER: b

Chapter 9 - Managing Compensation

36. What do we call jobs that are selected to be included in salary surveys?
- a. higher-pay jobs
 - b. equity jobs
 - c. comparison jobs
 - d. benchmark jobs

ANSWER: d

37. Which of the following is NOT a characteristic of “key jobs” used in wage and salary surveys?
- a. They contain a large number of positions.
 - b. They have the same job content across many organizations.
 - c. They are usually paid high rates.
 - d. They have relatively stable job content.

ANSWER: b

38. Tiffany works as an IT specialist at Nortel. She is compensated based on such skills as programming and service to clients. It is likely that she is paid under which of the following pay plans?
- a. a competency-based pay plan
 - b. a performance-based pay plan
 - c. a merit-based pay plan
 - d. a seniority-based pay plan

ANSWER: a

39. According to the textbook, what is the predominant approach to employee compensation in Canada?
- a. competency-based pay
 - b. pay-for-performance
 - c. individual contract
 - d. job-based pay

ANSWER: d

40. XYZ Company wants to pay its employees based on their skills that are valued by the company. Which of the following would it most likely use?
- a. commission pay
 - b. stock-based pay
 - c. profit sharing
 - d. competency-based pay

ANSWER: d

Chapter 9 - Managing Compensation

41. What do we call payment rates above the maximum of a pay range?
- a. red circle rates
 - b. unfair pay rates
 - c. pay for talent
 - d. broadband rates

ANSWER: a

42. Which of the following terms is also used to describe competency-based pay?
- a. incentive pay
 - b. commission pay
 - c. skilled-based pay
 - d. broadband pay

ANSWER: c

43. Pay equity legislation is administered at what jurisdictional level?
- a. international
 - b. federal
 - c. provincial
 - d. municipal

ANSWER: c

44. Jambrone Foods and CUPE Local 5000 have a collective agreement in place that allows for wages to be paid at more than the minimum wage set by the Employment Standards Act. Which of the following best describes this agreement?
- a. It is illegal.
 - b. It is legal.
 - c. It is legal but ill-advised.
 - d. It is acceptable under the Employment Standards Act but illegal under the *Canada Labour Code*.

ANSWER: b

45. Which type of legislation is concerned with minimum wage rates and overtime payments?
- a. employment standards
 - b. employment equity
 - c. equal pay
 - d. pay equity

ANSWER: a

Chapter 9 - Managing Compensation

46. Desirée is a female receptionist employed by York University in Toronto. John is a male janitor with the same employer. Both jobs are evaluated as having 500 points, yet Desirée is paid less than John. She has decided to legally challenge the employer. Which of the following is relevant in this case?
- the Peter principle
 - market matching
 - equal pay for work of equal value
 - equal pay for equal work

ANSWER: c

47. ABC Corporation is a furniture firm based in Ontario that supplies its products to the federal government. What laws would apply to ABC Corporation?
- federal and provincial laws
 - federal laws only
 - provincial laws only
 - international laws only

ANSWER: a

48. As the year 2000 approached, many organizations hired “young” and “inexperienced” information technology (IT) specialists to help address the Y2K problem. Many of these new hires were paid high compensation that brought them very close to the compensation earned by experienced IT specialists working with these companies. Which of the following can such a practice lead to?
- wage inversion
 - pay equity
 - wage-rate compression
 - high turnover across the board

ANSWER: c

49. Which of the following is **NOT** a potential outcome of wage-rate compression?
- decreased employee performance
 - low employee morale
 - delinquent employee behaviour
 - lower absenteeism

ANSWER: d

50. Wage compression may create problems related to which of the following?
- external equity
 - internal equity
 - gender discrimination
 - racial discrimination

ANSWER: b

Chapter 9 - Managing Compensation

Scenario 9.1

Denton and Denton Inc. (D&D Inc.) is a small graphic design firm that designs tray liners for various small food chains across Canada and a major chain in the United States. D&D currently has 20 employees who are paid hourly rates for time worked, not projects completed. These workers consider themselves valuable, knowledge-based workers, and now that the company is expanding its client base they are not happy with the current pay structure. Management claims that this pay structure, ranging from \$20 to \$65 per hour, is based on collapsing the pay ranges for four job bands.

51. Refer to Scenario 9.1. Given that these employees are skilled-based/knowledge workers, which of the following is a more effective way to compensate them?
- piece rate pay system
 - hourly rate based on task completed
 - salaried employee system
 - competency-based pay system

ANSWER: d

52. Refer to Scenario 9.1. What type of pay system is D&D Inc. currently using to compensate its employees?
- broadbanding
 - competency-based
 - red circle rates
 - piece rate

ANSWER: a

53. Refer to Scenario 9.1. Which of the following is **NOT** a benefit of competency-based pay system?
- greater productivity
 - decreased compensation costs
 - improved staffing flexibility to meet production or service demands
 - reduced effects of absenteeism and turnover

ANSWER: b

Chapter 9 - Managing Compensation

Scenario 9.2

Calendar “R” Us Ltd. is a small firm that manufactures yearly calendars with a specific focus on middle and high schools in Alberta. They started operations back in 2006 with just 12 employees, two machines, and a small warehouse that served as an office and production and storage facilities. Today, Calendar “R” Us has roughly 60 employees and supplies its calendars to most middle and high schools in Alberta. When employees join they are paid based on their relationship with the owners. Given the rapid growth in its staff complement, and the arbitrary way in which it normally compensates employees, payroll has proven to be quite a challenge for the company as management looks to expand into other provinces.

54. Refer to Scenario 9.2. Calendar “R” Us wants to develop a set of compensation policies that are internally fair. Which of the following is helpful in making this decision?
- job evaluation
 - external competition
 - global comparisons of pay
 - market surveys

ANSWER: a

55. Refer to Scenario 9.2. Calendar “R” Us jobs range from management to administrative, to clerical to production to packing to delivering. Which of the following would be key to evaluating the worth of each job category?
- avoiding the use of job evaluation to establish wage structure
 - evaluating the job based on market price
 - evaluating the job based on total value delivered to the organization
 - comparing each job with a competitor in the market

ANSWER: c

56. Refer to Scenario 9.2. Setting pay levels at Calendar “R” Us can be limited by all of the following factors **EXCEPT** which one?
- employee expectations and motivation
 - profitability of the firm
 - productivity of employees
 - economic condition and competition

ANSWER: a

57. Refer to Scenario 9.2. Which of the following is a useful and cost-effective way for Calendar ‘R’ Us to find information on wage and salary trends in similar industries?
- develop in-house surveys
 - use surveys done by provincial governments and boards of trade
 - purchase surveys done with global organizations
 - set wages based on ability to pay only

ANSWER: b

Chapter 9 - Managing Compensation

58. Indirect compensation includes bonuses and commissions.

- a. True
- b. False

ANSWER: False

59. Strategic compensation is the compensation of employees in ways that enhance motivation and growth while concurrently aligning their efforts with the goals of the organization.

- a. True
- b. False

ANSWER: True

60. Rewarding an employee's past performance is a goal of strategic compensation policy.

- a. True
- b. False

ANSWER: True

61. Among the goals of strategic compensation policy are rewarding past performance, attracting new employees, and reducing turnover.

- a. True
- b. False

ANSWER: True

62. Pay equity is achieved when employees' compensation is equal to the value of the work they perform.

- a. True
- b. False

ANSWER: True

63. Expectancy theory predicts that people expect to be paid as much or more than individuals in a similar job class.

- a. True
- b. False

ANSWER: False

64. When time off is given in exchange for overtime work, it must be given hour-for-hour to the number of hours worked overtime.

- a. True
- b. False

ANSWER: False

Chapter 9 - Managing Compensation

65. Employees who earn pay for hourly work are referred to as salaried employees.

- a. True
- b. False

ANSWER: False

66. The expectancy theory of motivation predicts that one's level of motivation depends on the attractiveness of the rewards sought by employees and the probability of obtaining those rewards.

- a. True
- b. False

ANSWER: True

67. Internal factors that influence wage rates include the worth of a job, and the employer's ability to pay.

- a. True
- b. False

ANSWER: True

68. The use of job evaluation is widespread in the private sector but is rarely used in the public sector.

- a. True
- b. False

ANSWER: False

69. Pay levels are limited in part by profitability of the firm and productivity of employees.

- a. True
- b. False

ANSWER: True

70. Labour market conditions have little impact on wage rates paid to employees.

- a. True
- b. False

ANSWER: False

71. Wage survey data can be obtained from government sources, trade associations, or professional groups, or organizations can conduct their own surveys.

- a. True
- b. False

ANSWER: True

Chapter 9 - Managing Compensation

72. The consumer price index tracks the change in price over time of a “market basket” of goods and services.
- a. True
 - b. False

ANSWER: True

73. Wage compression can be avoided by granting wage increases solely on the basis of the CPI.
- a. True
 - b. False

ANSWER: False

74. Granting wage increases solely on the basis of the CPI helps compress pay rates within a pay structure, thereby ensuring equity among those who receive the wage increase.
- a. True
 - b. False

ANSWER: False

75. Real wages represent the difference between wage increases and cost-of-living increases.
- a. True
 - b. False

ANSWER: True

76. Job evaluation is a non-systematic, qualitative process of determining the relative worth of jobs in order to establish a comparison with the prevailing market and regional value of a job within a job family.
- a. True
 - b. False

ANSWER: False

77. Job ranking is a simple method that provides a precise measure of each job’s worth.
- a. True
 - b. False

ANSWER: False

78. HR professionals establish predetermined wage grades as a basis for evaluating jobs in the job classification system of job evaluation.
- a. True
 - b. False

ANSWER: True

Chapter 9 - Managing Compensation

79. The job classification system is commonly used by smaller employers.

- a. True
- b. False

ANSWER: False

80. The point system of job evaluation permits jobs to be evaluated quantitatively based on compensable factors.

- a. True
- b. False

ANSWER: True

81. Compensable factors include skills, effort, responsibilities, and working conditions.

- a. True
- b. False

ANSWER: True

82. A point manual can be used to determine the external equity of a job.

- a. True
- b. False

ANSWER: False

83. The Hay profile method is useful for evaluating jobs of all types and levels.

- a. True
- b. False

ANSWER: False

84. Using job evaluation and wage survey data jointly improves the likelihood of both internal and external equity.

- a. True
- b. False

ANSWER: True

85. The jobs that are included in wage and salary surveys are referred to as “key jobs.”

- a. True
- b. False

ANSWER: True

86. An advantage of published wage surveys is compatibility with the organization’s jobs.

- a. True
- b. False

ANSWER: False

Chapter 9 - Managing Compensation

87. To provide compensation estimates and ranges for jobs in an organization, all jobs should be surveyed.
- a. True
 - b. False

ANSWER: False

88. A wage curve represents the relationship between the relative worth of jobs and their wage rates.
- a. True
 - b. False

ANSWER: True

89. Managers will group similar jobs into a pay grade in order to help with the setting of wages for all jobs.
- a. True
 - b. False

ANSWER: True

90. Wages paid above the range maximum are called blue square rates.
- a. True
 - b. False

ANSWER: False

91. Steps within a rate range allow pay increases based on merit or seniority or a combination of the two.
- a. True
 - b. False

ANSWER: True

92. When employees are paid according to the skills and knowledge they have rather than the specific jobs they perform, they are paid according to competence-based compensation.
- a. True
 - b. False

ANSWER: True

93. Competence-based pay systems compensate employees for the different skills or knowledge they possess rather than for the job they hold in a designated job category.
- a. True
 - b. False

ANSWER: True

Chapter 9 - Managing Compensation

94. Competence-based pay systems represent a fundamental change in the attitude of management regarding how work should be organized and how employees should be paid for their work efforts.

- a. True
- b. False

ANSWER: True

95. Broadbanding refers to collapsing many traditional salary grades into a few wide salary bands.

- a. True
- b. False

ANSWER: True

96. Broadbands create more concern by employees with pay grades and steps.

- a. True
- b. False

ANSWER: False

97. An advantage of competence-based pay from the employee's perspective is that there is no limit to what they can earn by learning new skills.

- a. True
- b. False

ANSWER: False

98. The employment standards acts set minimum requirements with respect to wages, hours of work, and overtime.

- a. True
- b. False

ANSWER: True

99. When an employer operates in more than one province, it has to apply only the employment requirements of one province of its choosing.

- a. True
- b. False

ANSWER: False

100. Executives, administrators, and professional employees are exempt from overtime payments identified in employment standards acts.

- a. True
- b. False

ANSWER: True

Chapter 9 - Managing Compensation

101. Pay equity is covered only under federal jurisdiction.

- a. True
- b. False

ANSWER: False

102. Equal pay for work of equal value involves providing equal pay to women when they perform work historically performed by men.

- a. True
- b. False

ANSWER: False

103. Organizations may dodge the comparable worth issue by using one job evaluation system for clerical jobs frequently held by women, and another system for other jobs.

- a. True
- b. False

ANSWER: True

104. Wage-rate compression refers to the situation where employees perceive that there is too large a difference between their compensation and that of colleagues in higher-rated jobs.

- a. True
- b. False

ANSWER: False

105. Wage-rate compression commonly occurs when organizations grant pay adjustments to lower-rated jobs but do not extend the adjustments up the hierarchy.

- a. True
- b. False

ANSWER: True

106. How are the wages for jobs typically determined? Why is this process important?

ANSWER: The basis on which compensation payments are determined, and the way they are administered, can significantly affect employee productivity and the achievement of organizational goals. Internal influences include the employer's compensation policy, the worth of the job, the performance of the employee, and the employer's ability to pay. External factors influencing wage rates include labour market conditions, area wage rates, cost of living, the outcomes of collective bargaining, and legal requirements.

Chapter 9 - Managing Compensation

107. Briefly explain the different job evaluation systems.

ANSWER: Organizations use four basic job evaluation techniques to determine the relative worth of jobs. The *job ranking system* arranges jobs in numerical order on the basis of the importance of the job's duties and responsibilities to the organization. The *job classification system* slots jobs into pre-established grades. Higher-rated grades will require more responsibilities, working conditions, and job duties. The *point system* of job evaluation uses a point scheme based upon the compensable job factors of skill, effort, responsibility, and working conditions. The more compensable factors a job possesses, the more points are assigned to it. Jobs with higher accumulated points are considered more valuable to the organization. The *factor comparison system* evaluates jobs on a factor-by-factor basis against key jobs in the organization.

108. Explain competency-based pay, including its advantages and disadvantages. Include in your discussion the practice of broadbanding.

ANSWER: Competency-based pay, also known as knowledge-based pay, pay-for-knowledge, or multi-skill-based pay, compensates employees for the different skills or increased knowledge they possess rather than for the job they hold in a designated job category. There are several advantages that stem from the use of competency-based pay plans. The most frequently cited benefits of competency-based pay include greater productivity, increased employee learning and commitment to work, improved staffing flexibility to meet production or service demands, and the reduced effects of absenteeism and turnover. Unfortunately, some competency-based pay plans limit the amount of compensation employees can earn, regardless of the new skills or competencies they acquire. Further, employees can become discouraged when they acquire new abilities but find there are no higher-rated jobs to which they can transfer.

Organizations that adopt a competency-based pay plan frequently use broadbanding. Broadbanding simply collapses many traditional salary grades into a few wide salary bands. This is done by organizations in an attempt to structure their compensation payments to employees, to encourage lateral skill building, and to address the need to pay employees performing multiple jobs with different skill level requirements. By broadbanding, organizations can consider job responsibilities, individual skills, and career mobility patterns in assigning employees to bands.

109. Briefly discuss the provisions of the employment standards acts pertaining to employee compensation.

ANSWER: Each of the provinces and territories has employment standards legislation, which establishes minimum standards with a view to protecting employees and employers in certain work-related situations. Each province's Employment Standards Act specifies minimum wage rates and stipulates that an overtime rate of 1.5 times the base rate must be paid for all hours worked in excess of a set number of hours, which varies by jurisdiction. Particular groups, including lawyers, doctors, engineers, and managers, are exempt from overtime requirements.