

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Which of the following factors helps in the reduction of labour costs? 1) _____
- A) Paying more benefits and less cash
 - B) Making early retirement less attractive
 - C) Paying the same wages to fewer employees
 - D) Expanding the core workforce
 - E) Increasing the number of employees
- 2) The most common approach to managing labour costs during a recession involves: 2) _____
- A) reducing the workforce
 - B) hiring only core employees
 - C) using competitive market rates
 - D) using a top-down budgeting
 - E) reducing employees' variable pay
- 3) A group of employees with whom a strong and long-term relationship is desired is: 3) _____
- A) contract employees
 - B) core employees
 - C) temporary workers
 - D) contingent workers
 - E) part-time employees
- 4) Which of the following is true about core employees? 4) _____
- A) They can be contracted and expanded more easily than the contingent workers.
 - B) They are employees whose employment agreements cover only short, specific time periods.
 - C) They bring about an increase in the fixed portion of labour costs.
 - D) They help achieve flexibility and control labour costs.
 - E) They have many varied compensation packages.
- 5) Employers achieve flexibility and control labour costs by: 5) _____
- A) forming strong and long-term relationships with all employees
 - B) expanding the permanent workforce
 - C) expanding or contracting the contingent workforce
 - D) hiring only full-time employees
 - E) basing employee payment decisions on manager preferences

- 6) Which of the following factors influences decisions made using the top-down approach? 6) _____
- A) providing consultation to managers
 - B) monitoring budget versus actual increases
 - C) analyzing the impact of the cost of living increases on wages
 - D) reviewing and revising forecasts and budgets with management
 - E) analyzing forecasts
- 7) An index that measures changes in prices over time is known as the: 7) _____
- A) Cost of Living Index
 - B) Manufacturer Price Index
 - C) Producer Price Index
 - D) Consumer Price Index
 - E) Cost Price Index
- 8) The budgeting approach that requires senior management of each unit to estimate the pay increase for the entire organization unit is known as the: 8) _____
- A) decentralized budgeting approach
 - B) employee-participation budgeting approach
 - C) bottom-up budgeting approach
 - D) peer budgeting approach
 - E) top-down budgeting approach
- 9) To help ensure that different managers grant consistent increases to employees with similar performance ratings and in the same position in their ranges one should utilize: 9) _____
- A) ad hoc reshuffling
 - B) job security measures
 - C) outsourcing techniques
 - D) management by objectives
 - E) merit grids
- 10) Which of the following is a step in the bottom-up approach to controlling salary level? 10) _____
- A) examining the current year's rise in average wages
 - B) determining the company's ability to pay
 - C) managers to forecast pay increase recommendations
 - D) instructing managers in compensation policies and techniques
 - E) analyzing the impact of cost-of-living increases on wages
- 11) Which budgeting method places most responsibility on individual managers? 11) _____
- A) the control to compa-ratio budgeting method
 - B) the unit-level budgeting method
 - C) the planned level rise budgeting method
 - D) the top-down budgeting method
 - E) the bottom-up budgeting method

- 12) Range minimums and maximums reflect: 12) _____
- A) market fluctuations in wage rates
 - B) the market value of an employee's skills and abilities
 - C) the value placed on work
 - D) government regulations of wages
 - E) the market value of the output produced
- 13) A compa-ratio greater than 1.00 typically occurs because: 13) _____
- A) promotion rates are low
 - B) majority of employees are new hires
 - C) turnover is high
 - D) most workers are high in seniority
 - E) majority of workers are poor performers
- 14) The compa-ratio reflects the relationship of: 14) _____
- A) average rates actually paid to the midpoint of the range
 - B) rates paid for satisfactory performance to rates paid for exceptional performance
 - C) range maximums to range minimums
 - D) company profits of the present year to those of the previous year
 - E) red circle rates to green circle rates
- 15) Which of the following depends on performance and is NOT added to employees' base pay? 15) _____
- A) variable pay
 - B) across-the-board increase
 - C) overtime pay
 - D) merit pay
 - E) provident fund
- 16) Which of the following statements is true about analyzing the return of investments of pay decisions? 16) _____
- A) It encourages looking at compensation as an investment as well as an expense.
 - B) It increases the focus of employees as individuals and not as human capital.
 - C) It focuses on increasing the turnover of top employees.
 - D) It is a practice followed by all organizations regularly.
 - E) It restricts thinking to treating compensation as only an expense.

- 17) Which of the following is the first step in the six-stage process of compensation communication? 17) _____
- A) defining the objectives of the communication program
 - B) collecting information from executives, managers, and employees concerning their understanding of existing compensation programs
 - C) evaluating the compensation program
 - D) determining the most effective media with which to communicate compensation program
 - E) developing a communicating strategy for the compensation program
- 18) An organization adopts a marketing approach to let its employees know the benefits of its overall pay policies but not specific details about increases or limits of the policies. Which of the six steps in the communication compensation process does the organization's action reflect? 18) _____
- A) determining the most effective media in light of the message and the audience
 - B) evaluating the compensation program
 - C) developing a communication strategy that will accomplish the original objectives
 - D) collecting information from executives, managers, employees concerning their understanding of the existing compensation programs
 - E) defining the objectives of the compensation program
- 19) A management strategy that gives separate organization units the responsibility to design and administer their own systems is known as: 19) _____
- A) outsourcing
 - B) centralization
 - C) decentralization
 - D) tactical planning
 - E) authoritarianism
- 20) A possible side effect of a decentralized pay structure is that: 20) _____
- A) organizations require larger compensation staffs
 - B) there is decreased opportunity for the inconsistent treatment of employees
 - C) there is decreased potential for pay discrimination
 - D) pushing responsibilities and expenses close to the units, managers, and employees affected by them may cause doubt that decisions are business related
 - E) it may be difficult to transfer employees from one business unit to another
- 21) Which of the following processes is a change agent in restructuring compensation policies? 21) _____
- A) broadbanding
 - B) benchmarking
 - C) reemployment
 - D) reengineering
 - E) reverse engineering

- 22) Organizations secure a range of services and supplies from independent, external vendors by: 22) _____
- A) doing a job analysis
 - B) partnering
 - C) engaging in employment-at-will
 - D) having joint ventures
 - E) outsourcing
- 23) Which of the following is an advantage of outsourcing? 23) _____
- A) It enables more control over decisions that are often critical to all employees.
 - B) It results in the preservation of information from rivals and competitors.
 - C) It ensures short-term cost savings to the business.
 - D) It brings about greater responsiveness to unique and specific employee problems.
 - E) It reshapes the compensation function to make it less client focused and more promotion focused.
- 24) Beta Systems decided to outsource some of its operations. Which of the following will be a short-term advantage for the company? 24) _____
- A) increased ability to focus on activities that do not directly contribute to the strategic objectives of the company
 - B) more responsiveness to employee-manager problems
 - C) cost savings
 - D) less risk of information being leaked to rivals
 - E) more control over decisions

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 25) Announcements of layoffs and plant closings never have favourable effects on stock prices as investors anticipate poor cash flow and increased costs. 25) _____
- 26) Using contingent employees makes it more difficult to control labour costs. 26) _____
- 27) A planned level rise is the percentage increase in average pay that is planned for a budget period. 27) _____
- 28) A Consumer Price Index (CPI) of 120 in Ontario and 160 in Toronto means that it costs more to live in Toronto. 28) _____
- 29) Changes in the CPI only indicate whether prices have increased more or less rapidly in an area since the base period. 29) _____
- 30) The CPI is of public interest because changes in it trigger changes in labour contracts. 30) _____
- 31) Range minimums and maximums reflect the market value of output produced. 31) _____

- 32) A compa-ratio of below 1.00 indicates lower turnover. 32) _____
- 33) Red circle rates are pay rates below the range minimum. 33) _____
- 34) Green circle rates pay rates above the range maximum. 34) _____
- 35) Costing out wage proposals is commonly done prior to recommending pay increases. 35) _____
- 36) If the pay system is not based on work-related or business-related logic, then the wisest course is probably to avoid formal communication until the system is put in order. 36) _____
- 37) Decentralized pay structures are generally easier to administer. 37) _____
- 38) Outsourcing means that organizations secure a range of services and supplies from independent, external vendors. 38) _____
- 39) Increased cost is the most significant short-term disadvantage of outsourcing. 39) _____

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 40) Labour costs are a function of which three factors?
- 41) Which are the two groups of employees that employers establish different relationships with?
- 42) What is bottom-up budgeting?
- 43) Describe the steps within the compensation forecasting cycle of bottom-up budgeting.
- 44) What is the formula for calculating compa-ratio?
- 45) How do inherent controls help control labour costs?
- 46) What are the six stages in the compensation communication cycle?
- 47) Discuss how centralization and decentralization affect the structuring of the compensation function.
- 48) How do organizations deal with the issues that arise from decentralization?
- 49) What balance is required in order to manage compensation?

Answer Key

Testname: UNTITLED13

- 1) C
- 2) A
- 3) B
- 4) C
- 5) C
- 6) C
- 7) D
- 8) E
- 9) E
- 10) D
- 11) E
- 12) C
- 13) A
- 14) A
- 15) A
- 16) A
- 17) A
- 18) C
- 19) C
- 20) E
- 21) D
- 22) E
- 23) C
- 24) C
- 25) FALSE
- 26) FALSE
- 27) TRUE
- 28) FALSE
- 29) TRUE
- 30) TRUE
- 31) FALSE
- 32) FALSE
- 33) FALSE
- 34) FALSE
- 35) TRUE
- 36) TRUE
- 37) FALSE
- 38) TRUE
- 39) FALSE
- 40) There are three main factors to control in order to manage labour costs: employment (e.g., number of employees and the hours they work), average cash compensation (e.g., wages, bonuses), and average benefit costs (e.g., health and life insurance, pensions).
- 41) The two groups are commonly referred to as core employees, with whom a strong and long-term relationship is desired, and contingent workers, whose employment agreements may cover only short, specific time periods. Rather than expand or contract the core workforce, many employers achieve flexibility and control labour costs by expanding or contracting the contingent workforce. Hence, the fixed portion of labour costs becomes smaller and the variable portion larger. And the contingent labour force can be expanded or contracted more easily than the core.

- 42) Bottom-up budgeting is a method of salary control that requires managers to forecast the pay increases they will recommend during the upcoming plan year.
- 43) 1. Instruct managers in compensation policies and techniques. Train managers in the concepts of a sound pay-for-performance policy and in standard company compensation techniques such as the use of pay increase guidelines and budgeting techniques. Also communicate the salary ranges and market data.
2. Distribute forecasting instructions and worksheets. Furnish managers with the forms and instructions necessary to pre-plan increases. Each employee's performance rating history, past raises, training background, and past incentives are all included. Guidelines for increases based on merit, promotion, and equity adjustments are provided, and all the worksheets are linked so that the manager can model pay adjustments for each employee and see the budgetary effects of those adjustments immediately. Some argue that providing such detailed data and recommendations to operating managers makes the system too mechanical. Pay histories ensure that managers are at least aware of this information and that pay increases for any one period are part of a continuing message to individual employees, not some ad hoc response to changes.
3. Provide consultation to managers. Offer advice and salary information services to managers upon request. An online approach makes it much easier to request and apply such guidance.
4. Check data and compile reports. Audit the increases forecasted to ensure that they do not exceed the pay guidelines and are consistent with appropriate ranges. Then use the data to feed back the outcomes of pay forecasts and budgets.
5. Analyze forecasts. Examine each manager's forecast and recommend changes based on noted inequities to different managers.
6. Review and revise forecasts and budgets with management. Consult with managers regarding the analysis of recommended changes. Obtain top-management approval of forecasts.
7. Conduct feedback with management. Present statistical summaries of the forecasting data by department to establish unit goals.
8. Monitor budgeted versus actual increases. Control the forecasted increases versus the actual increases by tracking and reporting periodic status to management.
- 44) The formula for calculating compa-ratio is average rates actually paid divided by range midpoint.
- 45) Inherent controls establish parameters on what pay adjustments can be made. They help ensure consistent treatment throughout the organization as well as limit what decision makers can do.
- 46) The six stages in the compensation communication cycle are: defining the objectives and goals of the communication program, obtaining information on the current compensation program, developing the strategy for the best overall communication approach, determining the media and tools that are most appropriate, conducting communication sessions and evaluating the success of the program.

- 47) An important issue related to structuring the function revolves around the degree of decentralization (or centralization) in the overall organization structure. Decentralized refers to a management strategy of giving separate organization units the responsibility to design and administer their own systems. This contrasts with a centralized strategy, which locates the design and administration responsibility in a single corporate unit. More decentralized organizations have relatively small corporate compensation staffs (three or four professionals). Their primary responsibility is to manage the systems by which executives and the corporate staff are paid. These professionals operate in a purely advisory capacity to other organizational subunits. The subunits, in turn, may employ compensation specialists. Or the subunits may choose to employ human resources generalists rather than compensation specialists, and may turn to outside compensation consultants to purchase the expertise required on specific compensation issues.
- Decentralizing certain aspects of pay design and administration has considerable appeal. Pushing these responsibilities (and expenses) close to the units, managers, and employees affected by them may help to ensure that decisions are business related.
- 48) The answer to issues arising from decentralization can be found in developing a set of corporate-wide principles or guidelines that all must meet. These principles may differ for each major pay technique. For example, GE's business units worldwide have the flexibility to design incentive plans tailored to each unique business unit's strategies and cultures. The only guidance is to ensure that the plans adhere to GE's basic beliefs, improve financial and business objectives, and maintain or enhance GE's reputation.
- 49) Some balance between strict controls and chaos is required to ensure that pay decisions are directed at the organization's goals, yet permit sufficient flexibility for managers and employees to respond to unique situations.