

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

- 1) Which of the following is the first important decision involved in determining pay levels and designing pay structures? 1) \_\_\_\_\_
  - A) designing the survey
  - B) specifying the employer's external pay policy
  - C) constructing an internal pay policy line that reflects external pay policy
  - D) defining the purpose of the compensation survey
  - E) choosing relevant market competitors to survey
- 2) Which of the following is the final decision involved in determining pay levels and designing pay structures? 2) \_\_\_\_\_
  - A) defining the relevant market
  - B) interpreting and applying results
  - C) balancing competitiveness with internal alignment through the use of ranges, flat rates, and/or bands
  - D) determining the pay level policy
  - E) designing and conducting the survey
- 3) Which of the following is a systematic process of collecting and making judgments about payments made by other employers? 3) \_\_\_\_\_
  - A) competency analysis
  - B) archival research
  - C) recruitment questionnaire
  - D) performance appraisal
  - E) compensation survey
- 4) Which of the following steps involved in determining pay levels and designing pay structures immediately follows defining the purpose of a compensation survey? 4) \_\_\_\_\_
  - A) designing the compensation survey
  - B) analyzing data statistically
  - C) interpreting survey results
  - D) setting a competitive pay policy
  - E) selecting relevant market competitors to survey
- 5) The mix of different forms of pay and their relative importance makes up the \_\_\_\_\_. 5) \_\_\_\_\_
  - A) pay level
  - B) pay band
  - C) pay package
  - D) base pay
  - E) pay grade

- 6) When new organizations and jobs fuse together diverse knowledge and experience, relevant markets appear more like \_\_\_\_\_. 6) \_\_\_\_\_
- A) fuzzy markets
  - B) equity firms
  - C) defined markets
  - D) monopolies
  - E) knowledge markets
- 7) Which of the following is true of hiring a third-party consultant instead of managing the survey internally? 7) \_\_\_\_\_
- A) It makes the process inefficient due to the lack of expertise.
  - B) It reduces the company's expenses.
  - C) It helps the company gain a greater control in assessing the usefulness of the data.
  - D) It introduces subjectivity into the process.
  - E) It may trade off some power over the decisions that determine the quality of the data.
- 8) Apart from base pay and bonus, \_\_\_\_\_ includes stock-based incentives too. 8) \_\_\_\_\_
- A) total cash
  - B) nominal compensation
  - C) fringe
  - D) benefit
  - E) total compensation
- 9) \_\_\_\_\_ reflects the cash value of the job plus bonuses paid to incumbents; it excludes stock options. 9) \_\_\_\_\_
- A) Benefit
  - B) Incentive
  - C) Base cash
  - D) Total compensation
  - E) Total cash
- 10) The amount of cash that competitors decide each job is worth is called: 10) \_\_\_\_\_
- A) base pay
  - B) a bonus
  - C) piece rate
  - D) a fringe benefit
  - E) an incentive

- 11) In a survey report, when an employer's data is substantially out of line from other employers, it is called a(n): 11) \_\_\_\_\_
- A) normality
  - B) synchronicity
  - C) anomaly
  - D) congruity
  - E) conformity
- 12) Multiplying survey data by some numerical factor that corresponds to the analyst's judgment of the differences between the company and the survey job is called: 12) \_\_\_\_\_
- A) survey forecasting
  - B) survey banding
  - C) survey trending
  - D) survey lagging
  - E) survey levelling
- 13) A data point that falls outside the majority of data points is known as a(n): 13) \_\_\_\_\_
- A) outlier
  - B) range
  - C) mean
  - D) variance
  - E) median
- 14) Variation is: 14) \_\_\_\_\_
- A) the distribution of rates around a measure of central tendency.
  - B) the grouping of jobs considered substantially equal for pay purposes.
  - C) expressed as a percentage above the minimum of a pay range.
  - D) a data point that falls outside the majority of the data points.
  - E) the value obtained by adding the base wages of all employees in a survey.
- 15) When data from a survey is adjusted to represent pay at the current or future date when the pay decisions will be implemented, it is known as: 15) \_\_\_\_\_
- A) survey restructuring
  - B) survey normalizing
  - C) aging/trending survey data
  - D) frequency distributing
  - E) survey levelling
- 16) Updating the market data to represent pay at the current or future date when the pay decisions will be implemented is called: 16) \_\_\_\_\_
- A) matching
  - B) aging/trending survey data
  - C) broadbanding
  - D) compensating
  - E) survey levelling

- 17) \_\_\_\_\_ provides a statistical summary of the distribution of going rates paid by competitors in the market. 17) \_\_\_\_\_
- A) Accession
  - B) Accretion
  - C) Progression
  - D) Dispersion
  - E) Regression
- 18) Which of the following links a company's benchmark jobs on the horizontal axis with market rates paid by competitors on the vertical axis? 18) \_\_\_\_\_
- A) a percentile line
  - B) a pay range line
  - C) a market pay line
  - D) a pay policy line
  - E) a quartile line
- 19) Which of the following statements is true of market pay line? 19) \_\_\_\_\_
- A) A market pay line is constructed by adjusting pay policy line.
  - B) A market pay line links a company's benchmark jobs on the vertical axis with market rates paid by competitors on the horizontal axis.
  - C) A market pay line is adjusted in order to construct a pay policy line.
  - D) A market pay line is a line of consumers in a market.
  - E) A market pay line reflects a firm's competitive position in the market.
- 20) Which of the following is true about pay grades? 20) \_\_\_\_\_
- A) Pay grades makes the pay structure inflexible.
  - B) Pay grades are easy to design.
  - C) Jobs within a single pay grade may have different pay ranges.
  - D) Pay grades restrict an organization's ability to move people between jobs.
  - E) Pay grades are created by grouping jobs considered substantially equal.
- 21) Pay ranges: 21) \_\_\_\_\_
- A) do not use pay to recognize individual performance differences
  - B) reduce managers' flexibility to deal with pressures from external markets
  - C) exist whenever two or more rates are paid to employees performing the same job
  - D) may vary for jobs within a single pay grade
  - E) fix a single rate to be paid to all employees performing the same job

- 22) Which of the following represents the relationship between pay ranges and pay grades? 22) \_\_\_\_\_
- A) Pay ranges set an upper and lower limit between which all wages for all jobs in a particular grade are expected to fall.
  - B) A pay grade is expressed as a percentage above the midpoint of the pay range.
  - C) Grades set the ceiling and floor on what the employer is willing to pay for the work; ranges refer to grouping of jobs.
  - D) The competitive pay level for each range becomes the midpoint of the pay grade for that range.
  - E) The midpoints for each pay grade usually correspond to the points where the pay policy line crosses each range.
- 23) Broadbanding: 23) \_\_\_\_\_
- A) does not allow cross-functional growth
  - B) makes mergers and acquisitions an elaborate and a difficult process
  - C) does not support boundaryless organizations that have eliminated layers of managerial jobs
  - D) allows lateral movement of employees
  - E) fails to provide flexibility in defining job responsibilities
- 24) Pay rates from market data used in pricing broad bands are known as: 24) \_\_\_\_\_
- A) anomalies
  - B) product rates
  - C) pay ranges
  - D) reference rates
  - E) pay grades
- 25) Market pricing refers to: 25) \_\_\_\_\_
- A) adjusting the price of products according to the prices of competitors
  - B) combining jobs into a broader market band
  - C) relying on external market rates to set the internal pay structure
  - D) the point where supply and demand curves cross
  - E) paying rates that reflect product market conditions

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

- 26) Compensation surveys provide the data for translating a policy into pay levels, pay mix, and structures. 26) \_\_\_\_\_
- 27) A compensation survey is the systematic process of collecting and making judgments about the compensation paid by other employers. 27) \_\_\_\_\_
- 28) The first major decision in designing pay structures pertains to defining the purpose of a compensation survey. 28) \_\_\_\_\_

- 29) In most organizations, the responsibility for managing the compensation survey lies with the chief financial officer. 29) \_\_\_\_\_
- 30) One of the important questions asked while designing a compensation survey is: "Who should be involved in the survey design?" 30) \_\_\_\_\_
- 31) Trending is a process by which jobs considered substantially equal for pay purposes are grouped together. 31) \_\_\_\_\_
- 32) A market pay line is a way to set the external competitive position by adjusting the pay policy line. 32) \_\_\_\_\_
- 33) Grades and ranges offer managers the flexibility to deal with pressures from external markets and within the organization. 33) \_\_\_\_\_
- 34) Pay ranges fail to recognize individual differences in performance. 34) \_\_\_\_\_
- 35) Pay ranges are usually narrower for managerial jobs than for production jobs. 35) \_\_\_\_\_
- 36) A high degree of overlap among job ranges makes it more difficult to move employees from one range to another. 36) \_\_\_\_\_
- 37) A pay range includes a minimum, a midpoint, and a maximum. 37) \_\_\_\_\_
- 38) Broadbanding reduces the size of pay ranges so that there is more cohesiveness in pay ranges. 38) \_\_\_\_\_
- 39) Companies that adopt a market pricing strategy emphasize internal alignment. 39) \_\_\_\_\_
- 40) The market pricing approach sets pay structures by relying almost exclusively on rates paid by competitors in the external market. 40) \_\_\_\_\_

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

- 41) What is market pricing?
- 42) What are the three most commonly used survey measures for compensation surveys?
- 43) What needs to be considered before designing a survey?
- 44) What is survey levelling?
- 45) Discuss the process of trending survey data.

- 46) Discuss how the market pay line and the pay policy line are used.
- 47) What opportunities do pay ranges provide managers?
- 48) What are the two steps in broadbanding?
- 49) What are the advantages and disadvantages of using broadbanding?
- 50) Describe the steps involved in market pricing.

## Answer Key

Testname: UNTITLED8

- 1) B
- 2) C
- 3) E
- 4) E
- 5) C
- 6) A
- 7) E
- 8) E
- 9) E
- 10) A
- 11) C
- 12) E
- 13) A
- 14) A
- 15) C
- 16) B
- 17) E
- 18) C
- 19) C
- 20) E
- 21) C
- 22) A
- 23) D
- 24) D
- 25) C
- 26) TRUE
- 27) TRUE
- 28) FALSE
- 29) FALSE
- 30) TRUE
- 31) FALSE
- 32) FALSE
- 33) TRUE
- 34) FALSE
- 35) FALSE
- 36) FALSE
- 37) TRUE
- 38) FALSE
- 39) FALSE
- 40) TRUE
- 41) Market pricing is an approach used for establishing pay structure by relying almost exclusively on external market pay rates.
- 42) 1) base pay, (2) total cash (base, profit sharing, bonuses), and (3) total compensation (total cash plus benefits and stock-based incentives) are the most commonly used survey measures.
- 43) Designing a compensation survey requires answering the following questions: (1) Who should be involved in the survey design? (2) How many employers should be included? (3) Which jobs should be included? and (4) What information should be collected?



- 44) Survey levelling is a process used to multiply survey data by a numerical factor to adjust for differences between the company job and the survey job.
- 45) Competitors' pay rates are constantly changing because pay reflects decisions of employers, employees, unions, and government agencies. Even though these changes do not occur smoothly and uniformly throughout the year, as a practical matter it is common practice to assume that they do. Therefore, a survey that requires three months to collect, code, and analyze is probably outdated before it becomes available. Consequently, the pay data usually are updated in a process often called aging/trending survey data to adjust the data to represent pay at the current or future date when the pay decisions will be implemented. The amount to adjust is based on several factors, including historical trends in market economic forecasts, prospects for the economy in which the employer operates, and the manager's judgment, among others.
- 46) A market pay line links a company's benchmark jobs on the horizontal axis (internal structure) with market rates paid by competitors (market survey), which are on the vertical axis. A market line may be drawn freehand by connecting the data points or statistical techniques such as regression analysis may be used. Regression generates a straight line that best fits the data by minimizing the variance around the line. Regression provides a statistical summary of the distribution of going rates paid by competitors in the market—in this case, the market pay line. The next major decision is to set the external competitive position by adjusting the market pay line in order to construct a pay policy line. This line reflects the firm's competitive position in the market.
- 47) Pay ranges provide managers the opportunity to:
1. Recognize individual performance differences with pay.
  2. Meet employees' expectations that their pay will increase over time, even while holding the same job.
  3. Encourage employee commitment to remain with the organization.
- 48) The two steps in broadbanding include setting the number of bands and pricing the bands' reference rates.
- 49) Broadbanding encourages employees to move cross-functionally (e.g., purchasing to finance, between development and systems design) to increase the cross-fertilization of ideas. Hence, a career move is more likely within a band and less likely between bands. According to supporters, the principal payoff of broadbanding is flexibility. Flexibility is one side of the coin; chaos and favouritism the other. Banding presumes that managers will manage employee pay to accomplish the organization's objectives (and not their own) and will treat employees fairly. Historically, this is not the first time greater flexibility has been given to managers and employees. Indeed, the rationale underlying the use of ranges and grades was to reduce the inconsistencies and favouritism that were destructive to employee relations in previous generations. The challenge today is to take advantage of flexibility without increasing labour costs or leaving the organization vulnerable to charges of favouritism and inconsistent or illegal practices.

- 50) Market pricing approach sets pay structures by relying almost exclusively on rates paid by competitors in the external market. Organizations that fill a large proportion of their job vacancies with hires from the outside may also become market pricers. Market pricers match a large percentage of their jobs with market data and collect as much market data as possible. They rank to market to determine the pay for jobs unique to their firms. The competitive rates for positions for which external market data are available are first calculated, then the remaining (non-benchmark) jobs are blended into the pay hierarchy created, based on external rates. These are immediately followed by labour market analysis and market pricing for as many jobs as possible. After that, the remaining jobs are blended in and the internal job relationships are reviewed to be sure they are "reasonable in light of organization workflow and other uniqueness." The final step is pricing those jobs not priced directly in the market. This is done by comparing the value of these jobs to the jobs already priced in the market