

Chapter 1: A Road Map to Effective Communication

TRUE/FALSE

1. The fundamental purpose of a compensation system is to help create a willingness among qualified persons to join the organization and to perform the tasks needed by the organization.

ANS: T PTS: 1 REF: 6 OBJ: 1

2. An effective compensation system is important to most organizations because it can mean the difference between company success and failure.

ANS: T PTS: 1 REF: 6 OBJ: 2

3. The main similarity between extrinsic rewards and intrinsic rewards is that they both flow from job content.

ANS: F PTS: 1 REF: 7 OBJ: 3

4. A reward strategy is the plan for the mix of rewards to be provided to organization members along with the means through which they will be provided.

ANS: T PTS: 1 REF: 7 OBJ: 5

5. A compensation system must be viewed in the context of the total reward system because it is the total pattern of financial and non-financial rewards that motivate employee behaviour.

ANS: T PTS: 1 REF: 8 OBJ: 7

6. The main difference between a reward system and a compensation system is that a reward system rewards only good performance while a compensation system provides pay to all employees.

ANS: F PTS: 1 REF: 8 OBJ: 4

7. The two key aspects of a compensation strategy are the amount of direct pay (cash) compensation to be paid and the amount of indirect compensation (non-cash services and benefits) to be provided.

ANS: F PTS: 1 REF: 8 OBJ: 6

8. Three of the key criteria for evaluating a compensation system are whether it promotes achievement of organizational goals, whether it is seen as equitable, and whether it has lower salary costs than competitors.

ANS: F PTS: 1 REF: 10 OBJ: 8

9. There is no single best compensation system that applies to all firms.

ANS: T PTS: 1 REF: 11 OBJ: 8

10. According to the "Road Map to Effective Compensation," the first step is formulating your reward and compensation strategy.

ANS: F

PTS: 1

REF: 11

OBJ: 9

MULTIPLE CHOICE

1. Which of the following statements is false?
- Canadian firms spend 20 to 40% of their operating budgets on compensation.
 - Some compensation systems serve to promote unproductive behaviour.
 - Reward systems need to be continually evaluated.
 - Some firms spend too little on their compensation systems.

ANS: A

PTS: 1

REF: 5

OBJ: 1

BLM: Understand

2. Which of the following statements most accurately describes extrinsic rewards?
- They focus on factors inherent in the work itself - the job *content*.
 - They satisfy higher-order human needs.
 - They include monetary and nonmonetary rewards and come from the job *context*.
 - They involve skill variety, task identify, task significance, autonomy, and feedback.

ANS: C

PTS: 1

REF: 6

OBJ: 3

BLM: Remember

3. Which of the following best explains extrinsic rewards?
- They provide everything employees value.
 - They focus on quality of life at work.
 - They are derived from factors in the job context.
 - They provide development and career opportunities.

ANS: C

PTS: 1

REF: 6

OBJ: 3

BLM: Remember

4. Which statement best describes the difference between the terms “rewards” and “incentives”?
- Rewards are given to satisfy basic human needs while incentives are used to satisfy higher-order human needs.
 - Rewards serve to recognize valued behaviour while incentives are intended to produce valued behaviour.
 - Rewards are job *context* related while incentives are job *content* related.
 - Rewards are used to influence future performance and incentives are given to recognize past work behaviour.

ANS: B

PTS: 1

REF: 7

OBJ: 1

BLM: Understand

5. As a small business owner committed to the total rewards approach to compensation what do you need to establish before you start to develop your compensation system?
- a reward system
 - an incentive program
 - a compensation strategy
 - a reward strategy

ANS: D

PTS: 1

REF: 7

STA: 7

BLM: Apply

6. Which of the following items is not considered part of a compensation system?
- base pay

- b. company parking pass
- c. union dues
- d. work/life programs

ANS: C PTS: 1 REF: 7 OBJ: 4
BLM: Understand

7. Which statement best describes the term “reward strategy”?
- a. The means through which performance bonuses are paid.
 - b. The mix of rewards provided to organization members.
 - c. The means for recognizing outstanding achievement.
 - d. Identifies the key contextual variables for an organization.

ANS: B PTS: 1 REF: 7 OBJ: 5
BLM: Remember

8. As an employer you want to implement a total rewards approach to compensation. Which of the following practices would ***not*** support this concept?
- a. Offering recognition programs.
 - b. Providing flexible work arrangements.
 - c. Providing challenging and interesting jobs with the opportunity for advancement.
 - d. Paying fixed salaries to minimize costs.

ANS: D PTS: 1 REF: 7 OBJ: 5
BLM: Apply

9. Which of the following best explains intrinsic rewards?
- a. Intrinsic rewards focus on increasing an employee’s financial position.
 - b. Intrinsic rewards are provided by job content.
 - c. Intrinsic rewards provide security and employee services.
 - d. Intrinsic rewards relate to bonuses based on performance.

ANS: B PTS: 1 REF: 7 OBJ: 3
BLM: Understand

10. The compensation system typically refers to which aspect of the reward system?
- a. The mix of intrinsic and extrinsic rewards
 - b. The economic or monetary part
 - c. The entire spectrum of rewards
 - d. Incentives

ANS: B PTS: 1 REF: 7 OBJ: 4
BLM: Remember

11. You have offered to your sales associate an all expenses paid trip for two to Australia if she doubles her annual sales volume from last year. What concept are you applying?
- a. Intrinsic rewards
 - b. Extrinsic rewards
 - c. Incentives
 - d. Job enrichment

ANS: C PTS: 1 REF: 7 OBJ: 1
BLM: Apply

12. Which of the following would be an example of an intrinsic reward?
- a. Interesting and meaningful work

- b. Pay for performance
- c. Fair policies and procedures
- d. Good management

ANS: A PTS: 1 REF: 7 OBJ: 3
BLM: Apply

13. What philosophy is the total rewards approach to compensation based on?
- a. Proper incentives can change employee behaviour.
 - b. Intrinsic rewards are more important to people than other rewards.
 - c. There are many awards associated with the work environment that have value.
 - d. Pay is still what matters most.

ANS: C PTS: 1 REF: 7 OBJ: 7
BLM: Understand

14. Your company is experiencing high turn over and poor work quality. Which of the following actions will increase intrinsic rewards?
- a. Providing a pension option and offering a retirement planning service.
 - b. Introducing pay-for-performance plans.
 - c. Trying to enrich the jobs to make them more interesting.
 - d. Offering dental and medical coverage.

ANS: C PTS: 1 REF: 7 OBJ: 3
BLM: Apply

15. What does a firm's compensation strategy identify?
- a. All of the financial and nonfinancial rewards of work.
 - b. The total amount of cash compensation employees will receive.
 - c. The mix of intrinsic rewards.
 - d. The mix and total amount of base, performance, and indirect pay.

ANS: D PTS: 1 REF: 8 OBJ: 6
BLM: Remember

16. Which of the following statements is most accurate regarding the reward strategy?
- a. The reward system is the blueprint for creating the reward strategy.
 - b. Intrinsic awards alone will not motivate the needed behaviour.
 - c. Determining the mix of rewards to be provided is an easy process.
 - d. Various combinations of intrinsic and extrinsic rewards need to be considered for developing the optimal reward strategy.

ANS: D PTS: 1 REF: 8 OBJ: 5
BLM: Analyze

17. Which of the following items is not a component of the compensation strategy?
- a. Employee benefits
 - b. Employment security
 - c. Base pay
 - d. Performance pay

ANS: B PTS: 1 REF: 8 OBJ: 6
BLM: Understand

18. A group of unionized employees negotiating a new contract is holding out for a better indirect pay plan. What should management offer the group in order to reach an agreement?

- a. Better services and benefits
- b. Better training and development opportunities
- c. Pay-for-performance
- d. A more competitive base pay

ANS: A PTS: 1 REF: 8 OBJ: 6
BLM: Apply

19. As head of the human resources department for a new company you have been asked to formulate a compensation strategy. What do you need to determine first?
- a. The role that compensation will play in the reward system.
 - b. The mix across the compensation components.
 - c. The total amount of compensation to be provided.
 - d. The organizational culture.

ANS: A PTS: 1 REF: 8 OBJ: 7
BLM: Apply

20. As a compensation consultant what is the best advice you can give to a small business owner wanting to develop the optimal reward strategy?
- a. The various combinations of intrinsic and extrinsic rewards need to be considered.
 - b. The optimal strategy is the cheapest one.
 - c. Most companies adopt a total rewards approach to compensation.
 - d. The plan for creating the compensation system is the most important aspect of the strategy.

ANS: A PTS: 1 REF: 9 OBJ: 8
BLM: Analyze

21. Which of the following would be the best choice for a compensation system?
- a. A competitive base pay and incentives are offered.
 - b. Employees share in the organization's profits.
 - c. Compensation is linked to knowledge.
 - d. The system is cost effective and achieves company goals.

ANS: D PTS: 1 REF: 10 OBJ: 8
BLM: Understand

22. Which of the following statements most accurately describes the optimal reward system?
- a. It adds the most value to the organization after considering all its costs.
 - b. It maximizes opportunities for learning and development.
 - c. It identifies best practices.
 - d. It provides whatever will satisfy the employee's needs.

ANS: A PTS: 1 REF: 10 OBJ: 8
BLM: Evaluate

23. Which of the following is not considered a goal of a reward and compensation system?
- a. Desired task behaviour is reinforced.
 - b. The system needs to comply with government regulations and laws.
 - c. Lower salary costs are achieved.
 - d. Qualified individuals are attracted and retained.

ANS: C PTS: 1 REF: 10 OBJ: 8
BLM: Apply

24. You have been given the responsibility to develop an effective compensation strategy for your company. Which of the following activities is not a required step in the process?.
- Understand your organization and your people.
 - Formulate your sustainability plans.
 - Design your performance pay and indirect pay plans.
 - Implement, manage, evaluate, and adapt the system.

ANS: B PTS: 1 REF: 11 OBJ: 9
BLM: Understand

25. Which statement best describes current compensation practices and expectations related to the key criteria for evaluating the success of a compensation system.
- It is realistic to expect that a reward system will achieve all eight of the effectiveness criteria.
 - Continuing evaluation of the effectiveness of the reward and compensation system is crucial for most organizations.
 - Successful organizations all have equitable reward systems.
 - Most firms have found the right answers to the compensation puzzle.

ANS: B PTS: 1 REF: 11 OBJ: 8
BLM: Analyze

26. What is the first step to effective compensation according to the “Road Map to Effective Compensation”?
- Develop new job descriptions.
 - Understand your organization and your employees.
 - Determine your compensation values.
 - Cost out the plan.

ANS: B PTS: 1 REF: 11 OBJ: 9
BLM: Remember

27. Compensation specialists are typically responsible for which aspect of the reward system?
- Corporate strategy
 - Extrinsic rewards
 - Intrinsic rewards
 - Organizational development

ANS: C PTS: 1 REF: 15 OBJ: 10
BLM: Understand

28. Which of the following statements best describes the context of compensation management within a firm?
- All organizations need a Human Resources Department to deal with compensation issues.
 - The larger the firm the greater the need for compensation specialists.
 - In smaller organizations compensation consulting firms are responsible for compensation strategy.
 - Within a large firm all managers require extensive knowledge of compensation.

ANS: B PTS: 1 REF: 15 OBJ: 10
BLM: Understand

29. In a large organization who is typically responsible for formulating the compensation strategy?
- Head of HR
 - The board of directors

- c. Manager of compensation
- d. Compensation consultants

ANS: A PTS: 1 REF: 15 OBJ: 10
BLM: Understand

30. As a job analyst you are responsible for which of the following functional areas?
- a. Designing and implementing compensation policies
 - b. Formulating compensation strategy
 - c. Evaluating market data
 - d. Developing job descriptions and conducting job evaluations

ANS: D PTS: 1 REF: 15 OBJ: 10
BLM: Understand

SHORT ANSWER

1. Explain the difference between “extrinsic” and “intrinsic” rewards. Provide examples for each type of reward.

ANS:

Extrinsic rewards satisfy our basic needs for survival, security, social requirements and recognition needs. They are derived from the context of the job in the workplace. They include the financial returns, tangible services, and benefits employees receive as part of the employment relationship. Intrinsic rewards satisfy higher level needs for self-esteem, achievement and growth. They are derived from job content rather than job context. They focus on job design and building more opportunities for challenge and achievement into jobs through job enrichment. Intrinsic rewards provide skill variety, task identity, task significance, autonomy and feedback.

PTS: 1 REF: 7 OBJ: 3 BLM: Understand

2. Explain the difference between a “reward strategy” and a “compensation strategy”.

ANS:

A reward strategy is the plan for the mix of all of the financial and nonfinancial rewards of work (i.e. the mix of extrinsic and intrinsic rewards) the organization plans to provide to its employees, along with the means through which they will be provided. Used to create the reward system, this design plan needs to be determined before the compensation strategy. The compensation strategy is one part of the reward strategy and is used to create the compensation system (which is the economic or monetary part of the reward system). The compensation strategy is the plan for mix and total amount of financial returns, tangible services and benefits employees receive as part of the employment relationship.

PTS: 1 REF: 8 OBJ: 4

3. Explain the ways in which “direct” and “indirect” pay are similar and different to each other.

ANS:

Combined, both are tangible financial extrinsic rewards that make up the compensation system: the economic or monetary part of the reward system used to help create a willingness among qualified persons to join the organization and to perform the tasks needed by the organization. Direct pay (sometimes known as “cash compensation”) represents monetary rewards. Types of cash compensation include the following: base pay or money - the foundation pay for most employees based on hourly pay or wage or as salary; performance pay - cash recognition based on individual, group or organizational performance; and cost of living adjustments (COLA). Indirect pay (sometimes known as “employee benefits”) represents nonmonetary rewards. It consists of the non-cash items or services that put money in employees’ pockets - things that would have required the expenditure of money had they not been provided by the employer. Used in lieu of money, goods and services are made available and paid totally or by percentage by the employer. These items satisfy a variety of specific employee needs such as pay for time not worked, protection programs, and employee services.

PTS: 1

REF: 8

OBJ: 6

4. What is the goal of an organization’s reward and compensation system?

ANS:

All organizations have a compensation plan, written or unwritten, formal or informal. For some organizations, the purpose of the plan may be merely to meet compliance requirements. For other organizations, the goal of the compensation plan may be to attract qualified employees, to retain those employees, and to motivate employees to direct their efforts towards achieving the goals of the organization.

The goals of reward and compensation system are to:

- 1) promote achievement of organizational goals. (The plan must be strongly tied to the objectives of the organization.)
- 2) fit with and support the organization’s strategy and structure. (If the business strategy or plans are not considered, then it would be very easy to pay for activities that do not actually help the organization be more successful.)
- 3) attract and retains qualified employees.
- 4) promote desired task behaviour. (Links rewards directly to performance through a strong performance management system.)
- 5) be seen as being equitable and communicated openly. (Transparency encourages honesty and straightforward discussions of how program works. Employees tend to overestimate others’ income level, so be as open as possible with summary data that will not breach individual confidentiality.)
- 6) comply with the law
- 7) be within the financial means of the organization
- 8) achieve all of the above goals in the most cost effective manner

PTS: 1

REF: 10

OBJ: 8

5. Identify the steps in developing an effective compensation strategy.

ANS:

Now that we have some basic ideas on compensation, rewards, employee needs, and goals of an effective compensation system, we need to look at the process for creating an effective compensation system. These steps are:

- 1) Understand your organization and your people.
- 2) Formulate your reward and compensation strategy.
- 3) Determine your compensation values.
- 4) Design your performance pay and indirect pay plans.
- 5) Implement, manage, evaluate, and adapt the compensation system.

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PTS: 1

REF: 11

OBJ: 9