

**Chapter 2: A Strategic Framework for Compensation**

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**TRUE/FALSE**

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.

ANS: F                      PTS: 1                      REF: 22–23                      OBJ: 1

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

ANS: F                      PTS: 1                      REF: 24–25                      OBJ: 3

3. The key feature of an organizational system is that it transforms input resources into outputs that are valued by a body or group.

ANS: T                      PTS: 1                      REF: 23                      OBJ: 2

4. Contextual variables such as managerial strategy provide the link to structural variables.

ANS: F                      PTS: 1                      REF: 26                      OBJ: 4

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

ANS: F                      PTS: 1                      REF: 26                      OBJ: 4

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

ANS: T                      PTS: 1                      REF: 26                      OBJ: 5

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

ANS: T                      PTS: 1                      REF: 27                      OBJ: 5

8. To determine the most appropriate managerial strategy for a firm to utilize, it is necessary to examine the firm's structural variables.

ANS: F                      PTS: 1                      REF: 26                      OBJ: 6

9. According to the textbook, all five contextual variables are of equal importance

ANS: F                      PTS: 1                      REF: 37                      OBJ: 6

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

ANS: T                      PTS: 1                      REF: 39–40                      OBJ: 8

**MULTIPLE CHOICE**

1. Which of the following sets of resources is used by an organization to transform inputs into outputs?
  - a. human, logistical, administrative, and financial
  - b. data bases, inventory, customers, and employees
  - c. human, information, physical, and financial
  - d. sales, service, marketing, and policies

ANS: C                      PTS: 1                      REF: 23                      OBJ: 2  
BLM: Remember

2. Which of the following terms describes systems that apply a set of procedures to a mix of resources in order to produce outputs that the marketplace values?
  - a. domain
  - b. organizations
  - c. technology
  - d. Porter's concept of fit

ANS: B                      PTS: 1                      REF: 23                      OBJ: 2  
BLM: Remember

3. 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.

ANS: C                      PTS: 1                      REF: 23                      OBJ: 1  
BLM: Higher Order: Understand

4. 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

ANS: B                      PTS: 1                      REF: 24                      OBJ: 4  
BLM: Higher Order: Understand

5. Knowing which organization structure to use requires first understanding which of the following aspects?
  - a. structural variables
  - b. corporate strategy
  - c. managerial strategy
  - d. technology

ANS: B                      PTS: 1                      REF: 38                      OBJ: 2  
BLM: Higher Order: Understand

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6. 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?
- structural variables
  - job design variables
  - financial variables
  - contextual variables

ANS: D                      PTS: 1                      REF: 24–26                      OBJ: 2  
BLM: Higher Order: Apply

7. A strategic framework is used as a tool to help determine which aspect of compensation?
- the most effective compensation system
  - corporate goals
  - corporate strategy
  - the business plan

ANS: A                      PTS: 1                      REF: 22                      OBJ: 3  
BLM: Higher Order: Understand

8. What should an effective organizational structure provide an organization?
- It identifies sources of required inputs for an organization.
  - It reduces internal uncertainty while increasing external uncertainty for an organization.
  - It increases internal uncertainty while decreasing external uncertainty for an organization.
  - It decreases both internal and external uncertainty for an organization.

ANS: D                      PTS: 1                      REF: 25                      OBJ: 4  
BLM: Remember

9. What can you determine by examining a firm's structural variables?
- the managerial strategy a firm is actually using
  - the managerial strategy a firm should be using
  - a firm's corporate strategy
  - the corporate strategy a firm should be using

ANS: A                      PTS: 1                      REF: 25                      OBJ: 4  
BLM: Higher Order: Understand

10. Which of the following is classified as a “main” managerial strategy?
- the job design management strategy
  - the laissez-faire management strategy
  - the transformational management strategy
  - the human relations management strategy

ANS: D                      PTS: 1                      REF: 26                      OBJ: 5  
BLM: Remember

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11. You have been asked to explain to a manager the notion of structural variables within the context of a strategic framework for compensation. Which of the following variables would you elaborate on?
- a. how work is divided into subtasks
  - 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

ANS: A                      PTS: 1                      REF: 25                      OBJ: 4  
BLM: Higher Order: Analyze

12. You are in the process of designing a new reward system for your firm. What is the most important single determinant of what will or will not be a successful reward system for your firm?
- a. the particular managerial strategy used
  - b. the interrelationships among the structural variables
  - c. corporate strategy
  - d. competitive advantage

ANS: A                      PTS: 1                      REF: 26                      OBJ: 5  
BLM: Higher Order: Understand

13. Which of the following variables 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

ANS: C                      PTS: 1                      REF: 26                      OBJ: 4  
BLM: Higher Order: Understand

14. What determines the contextual variables?
- a. organizational goals
  - b. structural variables
  - c. managerial strategy
  - d. corporate strategy

ANS: A                      PTS: 1                      REF: 26                      OBJ: 4  
BLM: Higher Order: Understand

15. 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. Which of the following variables would you review to support your aforementioned conclusion?
- a. structural variables
  - b. organizational policies and procedures
  - c. contextual variables
  - d. behaviours of managers

ANS: A                      PTS: 1                      REF: 25                      OBJ: 4  
BLM: Higher Order: Understand

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16. Which of the following sets 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

ANS: A                      PTS: 1                      REF: 26                      OBJ: 5  
BLM: Remember

17. Which of the following terms best describes the scope of business operations undertaken by an organization?
- a. integration
  - b. differentiation
  - c. craft
  - d. domain

ANS: D                      PTS: 1                      REF: 26                      OBJ: 3  
BLM: Higher Order: Understand

18. Which of the following 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

ANS: D                      PTS: 1                      REF: 28                      OBJ: 5  
BLM: Higher Order: Understand

19. Which of the following 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

ANS: B                      PTS: 1                      REF: 32                      OBJ: 5  
BLM: Higher Order: Understand

20. 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.

ANS: A                      PTS: 1                      REF: 32                      OBJ: 5  
BLM: Higher Order: Understand

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21. 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

ANS: D                      PTS: 1                      REF: 36                      OBJ: 5  
BLM: Higher Order: Understand

22. Which of the following key cultural values 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

ANS: C                      PTS: 1                      REF: 36                      OBJ: 6  
BLM: Higher Order: Analyze

23. Which of the following organizational variables would complement a classical management strategy?
- a. strong policies and procedures dictating work processes
  - b. high level of horizontal communication
  - c. significant autonomy given to employees
  - d. employee-focused organizational culture

ANS: A                      PTS: 1                      REF: 28                      OBJ: 6  
BLM: Higher Order: Analyze

24. 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 of the following managerial strategies should you adopt to increase the farm’s performance?
- a. human relations
  - b. classical
  - c. hybrid
  - d. high-involvement

ANS: B                      PTS: 1                      REF: 28                      OBJ: 7  
BLM: Higher Order: Apply

25. Which of the following production processes refers to long-linked technology?
- a. Standardized transactions are used to connect mutually interested people.
  - b. Tasks are divided into sequential steps and carried out by different employees.
  - c. Each item or case is unique and dealt with individually.
  - d. There is no standardization used to produce the product.

ANS: B                      PTS: 1                      REF: 40                      OBJ: 6  
BLM: Remember

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26. According to Perrow's approach to classifying technology, an electrical utility or a plant that manufactures washing machines is an example of what type of technology?
- a. routine
  - b. nonroutine
  - c. mediating
  - d. focused low-cost

ANS: A                      PTS: 1                      REF: 40                      OBJ: 6  
BLM: Higher Order: Apply

27. 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

ANS: C                      PTS: 1                      REF: 39                      OBJ: 7  
BLM: Higher Order: Apply

28. According to the textbook, which of the following terms would best describe an analyzer business strategy?
- a. speed
  - b. slow
  - c. balance
  - d. classical

ANS: C                      PTS: 1                      REF: 39                      OBJ: 7  
BLM: Remember

29. Which of the following conditions has NOT made it increasingly difficult for Canadian firms to make the classical managerial strategy work for them?
- 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.

ANS: B                      PTS: 1                      REF: 47                      OBJ: 8  
BLM: Higher Order: Understand

30. 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 of the following 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.

ANS: C                      PTS: 1                      REF: 48                      OBJ: 8  
BLM: Higher Order: Understand

**SHORT ANSWER**

1. Explain the concept of organizations as systems.

ANS:

By looking at organizations as systems in a very general sense, and by understanding the dynamic nature of organizational processes, we can begin to put strategic compensation in context within the organization. An organization can be described as a system that applies procedures to a set of input resources (or raw materials) including human, information, physical, and financial to transform these inputs into valued outputs. Productivity, defined from a systems perspective as the ratio of an organization's outputs to its inputs, increases as an organization finds new ways to use fewer resources to provide its outputs.

PTS: 1                      REF: 23–25                      OBJ: 2

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

ANS:

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.

PTS: 1                      REF: 24                      OBJ: 3

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

ANS:

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.

PTS: 1                      REF: 25                      OBJ: 4



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4. Briefly explain the difference between the three managerial strategies described in the text.

ANS:

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.

PTS: 1

REF: 26

OBJ: 5

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

ANS:

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.

PTS: 1

REF: 26

OBJ: 6