

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

- 1) What is the primary focus of a merit pay system? 1) \_\_\_\_\_
- A) to offer a uniform merit increase to all employees across performance levels
  - B) to reward employees for exceptional performance on special projects
  - C) to provide end-of-year bonuses that do not build into base pay
  - D) to reward employees for not being fired
  - E) to link increases in base pay to how employees are rated on a subjective performance evaluation
- 2) Lump-sum bonuses are: 2) \_\_\_\_\_
- A) focused on providing consistent increments in base pay through the year
  - B) more expensive than merit pay over the long run
  - C) viewed more as an entitlement than merit pay
  - D) awarded for exceptional performance on special projects
  - E) end-of-year bonuses that do not build into base pay
- 3) The major focus of individual spot awards is on: 3) \_\_\_\_\_
- A) awarding employees for exceptional performance on a special project
  - B) rewarding group or team performance
  - C) linking increases in base pay to employee ratings on performance evaluations
  - D) rewarding employees with monthly increments to keep up their motivation
  - E) promising pay for some objective, pre-established level of performance
- 4) An individual incentive payment plan can be described as: 4) \_\_\_\_\_
- A) an increase in base pay based on an employee's seniority
  - B) a form of pay determined by group level performance
  - C) a lump sum payment to an employee based on organizational performance
  - D) a pay for some objective, pre-established level of performance
  - E) a pay increase given to employees for unexpected exceptional performance on a special project
- 5) Which of the following is true of a straight piecework system? 5) \_\_\_\_\_
- A) It is a system where rate determination is based on units of production per time period.
  - B) It is based on providing end-of-year bonuses when the organization performs well.
  - C) It is a complex system and hence is not readily accepted by employees.
  - D) It is the least frequently implemented incentive system.
  - E) It is a system where standards are based on time per unit.

- 6) Which of the following is a disadvantage of individualized incentive plans? 6) \_\_\_\_\_
- A) earnings of workers are reduced
  - B) levels of mistrust between managers and workers are elevated
  - C) production costs are raised
  - D) costing and budgetary control are impeded
  - E) more direct supervision is required to maintain reasonable levels of output
- 7) Historically, \_\_\_\_\_ have been the most widely used performance indicator for group incentive plans. 7) \_\_\_\_\_
- A) financial measures
  - B) capability-focused measures
  - C) internal process-focused measures
  - D) customer-focused measures
  - E) resource utilization measures
- 8) Group incentive plans suffer from what is called the \_\_\_\_\_ where at least one person doesn't carry his or her share of the load. 8) \_\_\_\_\_
- A) free rider problem
  - B) self-serving bias
  - C) bandwagon effect
  - D) halo effect
  - E) moral hazard problem
- 9) Which of the following is a problem with group compensation systems? 9) \_\_\_\_\_
- A) At least one person in the group does not carry his or her share of the load.
  - B) If teams are defined at a very narrow level, much of the motivational impact of incentives is lost.
  - C) Group incentive plans are often too simplistic and do not accurately reflect the efforts of the group.
  - D) Team membership constantly changes as teams are eager to share their star performers and take on new employees.
  - E) There is very little room for variation in designing group incentive plans.
- 10) Which of the following is a key element in designing a gain-sharing plan? 10) \_\_\_\_\_
- A) using a historical standard to calculate whether employees will receive an incentive payout
  - B) limiting employee involvement in the implementation of the plan in order to avoid complications
  - C) factoring in environmental influences on performance which are not controllable by plan participants
  - D) ensuring that administration involves complex calculations which tend to be more accurate
  - E) ensuring that all profits or savings generated are paid only to the management

- 11) What is the main difference between a Scanlon plan and a Rucker plan? 11) \_\_\_\_\_
- A) A Scanlon plan involves a less complex formula than a Rucker plan for determining worker incentive bonuses.
  - B) A Scanlon plan requires worker committees while a Rucker plan does not.
  - C) A Scanlon plan is dependent on productivity norms while a Rucker plan works better without them.
  - D) A Scanlon plan focuses on reducing labour costs, while a Rucker plan focuses on increasing labour costs.
  - E) A Scanlon plan is a gain-sharing plan while a Rucker plan is an individualized incentive plan.
- 12) Which of the following is a disadvantage of profit sharing? 12) \_\_\_\_\_
- A) Most profit sharing plans involve high administrative costs.
  - B) Most profit sharing plans are highly sophisticated and hence not easily understood by employees.
  - C) Most employees don't feel their jobs have a direct impact on profits.
  - D) Most employees are not concerned about the profitability of their organizations.
  - E) Most employees are unwilling to learn about financial measures and the business factors that influence them.
- 13) A(n) \_\_\_\_\_ is an incentive plan that includes reductions in base pay in unsuccessful years. 13) \_\_\_\_\_
- A) broad-based option plan
  - B) earnings-at-risk plan
  - C) Scanlon plan
  - D) profit-sharing plan
  - E) gain-sharing plan
- 14) A disadvantage of group incentive plans is that: 14) \_\_\_\_\_
- A) they are often too simplistic in design
  - B) they maximize distinctions between team members
  - C) it is difficult to set equitable targets for all teams
  - D) they deemphasize cohesiveness and team identity
  - E) they are ineffective in stimulating ideas and problem-solving
- 15) Which of the following is true about gain-sharing pay plans? 15) \_\_\_\_\_
- A) They foster competition among employees, instead of cooperation.
  - B) They are simple to administer.
  - C) They help increase employees' knowledge of business.
  - D) They do not bring about clear performance-reward links.
  - E) They ensure that payouts occur only when a company's financial performance is good.

- 16) Which of the following is true about broad-based option plans? 16) \_\_\_\_\_
- A) They have only short-term effects on employee performance.
  - B) They are applicable only to senior executives.
  - C) They are capable of reinforcing either performance or a sense of ownership.
  - D) They maximize distinctions between employee groups.
  - E) They are unable to inspire commitment and retention.
- 17) Employee stock ownership plans: 17) \_\_\_\_\_
- A) grant stock options to employees at all levels rather than just senior executives
  - B) provide employees with end-of-year bonuses that do not build into their base pay
  - C) offer employees the opportunity to purchase company stock, often partially or fully matched by employer-paid stock for the employee
  - D) provide employees with the right to purchase stock at a specified (exercise) price for a fixed time period
  - E) link increases in base pay to how highly employees are rated on a subjective performance evaluation
- 18) According to the agency theory approach to understanding CEO compensation: 18) \_\_\_\_\_
- A) executives should not be allowed to own stock options
  - B) executive compensation should be regulated and monitored by government agencies
  - C) the worth of a CEO should correspond closely to some measure of company success, such as profitability or sales
  - D) executive salaries bear a consistent relative relationship to the compensation of lower-level employees
  - E) executive compensation should be designed to ensure that executives have the best interests of stockholders in mind when they make decisions
- 19) Which of the following is an example of a long-term incentive in an executive compensation package? 19) \_\_\_\_\_
- A) bonuses
  - B) pension plans
  - C) base pay
  - D) low-cost loans
  - E) stock options
- 20) Which of the following is an example of an employee benefit in an executive compensation package? 20) \_\_\_\_\_
- A) stock options
  - B) special parking
  - C) low-cost loans
  - D) bonuses
  - E) pension plans

- 21) Which of the following is an example of a perquisite for executives? 21) \_\_\_\_\_
- A) Executive stock options
  - B) Bonuses
  - C) Life insurance
  - D) Pension plans
  - E) Low-cost loans
- 22) A \_\_\_\_\_ provides two different ways of progressing in an organization, each reflecting different types of contributions to an organization's mission. 22) \_\_\_\_\_
- A) maturity curve
  - B) learning curve
  - C) broad-based option plan
  - D) dual career track
  - E) balanced scorecard
- 23) Which of the following is true about the compensation strategies for scientists and engineers? 23) \_\_\_\_\_
- A) Scientists and engineers generally advance their careers along the scientific track as they have few opportunities to pursue management responsibilities.
  - B) The knowledge and skills of engineers and scientists never become obsolete and hence their salaries continue to rise during the course of their careers.
  - C) Organizations generally do not provide perks to scientists and engineers, such as flexible work schedules, large offices, and lavish athletic facilities.
  - D) Most scientists and engineers are not entitled to performance-based incentives such as profit sharing and stock ownership incentives.
  - E) Due to the volatile nature of jobs and salaries in these occupations, organizations rely heavily on external market data in determining the base pay for scientists and engineers.
- 24) Which of the following is NOT a factor that influences the design of sales compensation packages? 24) \_\_\_\_\_
- A) competitor practices
  - B) organizational strategy
  - C) the nature of people who enter the sales profession
  - D) the product to be sold
  - E) size of the sales force

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

- 25) Over the long run for employers, merit pay is an inexpensive and efficient method of compensation. 25) \_\_\_\_\_
- 26) With lump-sum bonuses, employees receive an end-of year bonus that builds into base pay. 26) \_\_\_\_\_

- 27) Spot awards are examples of group incentive plans. 27) \_\_\_\_\_
- 28) The most frequently implemented individual incentive system is a standard hour plan. 28) \_\_\_\_\_
- 29) One disadvantage of individual incentive plans is that more direct supervision is required to ensure productivity increases. 29) \_\_\_\_\_
- 30) The "free rider" problem is an issue associated with individual incentive plans. 30) \_\_\_\_\_
- 31) A good gain-sharing plan ensures that environmental influences on performance, not controllable by plan participants, are factored out when identifying incentive levels. 31) \_\_\_\_\_
- 32) Improshare is a profit-sharing plan that is easy to administer and to communicate. 32) \_\_\_\_\_
- 33) Stock options are valuable when they have exercise prices higher than the current market value. 33) \_\_\_\_\_
- 34) In broad-based option plans, stock options are granted to a wide variety of employees rather than just senior executives. 34) \_\_\_\_\_
- 35) To align the interest of the directors and the organizations, publicly traded companies are increasingly adopting mandatory or recommended share ownership guidelines. 35) \_\_\_\_\_
- 36) According to the social comparison view, when salaries of lower-level employees rise in response to market forces, top executive salaries also rise to maintain the same relative relationship. 36) \_\_\_\_\_
- 37) Companies are now placing more and more emphasis on incentives at the expense of base salary. 37) \_\_\_\_\_
- 38) Maturity curves reflect the relationship between scientist/engineer compensation and years of experience in the labour market. 38) \_\_\_\_\_

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

- 39) What are lump-sum bonuses? What advantages do they have when compared to merit pay?
- 40) Explain the "free-rider" problem associated with group compensation systems.
- 41) Describe the difficulties in designing team compensation plans.
- 42) Discuss the key elements in designing a gain-sharing plan.
- 43) How is perceived fairness of a formula a key element in designing a gain-sharing plan?

- 44) Discuss three possible explanations for extremely high levels of CEO compensation.
- 45) Discuss the five basic elements of executive compensation packages.
- 46) What are executive perquisites?
- 47) What are dual career tracks?

## Answer Key

Testname: UNTITLED11

- 1) E
- 2) E
- 3) A
- 4) D
- 5) A
- 6) B
- 7) A
- 8) A
- 9) A
- 10) A
- 11) A
- 12) C
- 13) B
- 14) C
- 15) C
- 16) C
- 17) C
- 18) E
- 19) E
- 20) E
- 21) E
- 22) D
- 23) E
- 24) E
- 25) FALSE
- 26) FALSE
- 27) FALSE
- 28) FALSE
- 29) FALSE
- 30) FALSE
- 31) TRUE
- 32) FALSE
- 33) FALSE
- 34) TRUE
- 35) TRUE
- 36) TRUE
- 37) TRUE
- 38) TRUE
- 39) In the case of lump-sum bonuses, based on employee or company performance, employees receive an end-of-year bonus that does not build into base pay. Because employees must earn this increase every year, it is viewed less as an entitlement than is merit pay. Lump-sum bonuses also can be considerably less expensive than merit pay over the long run. Employees aren't particularly fond of lump-sum bonuses. After all, the intent of lump-sum bonuses is to cause shock waves in an entitlement culture. By giving lump-sum bonuses for several years, a company is essentially freezing base pay. Gradually this results in a repositioning relative to competitors.
- 40) Group compensation systems suffer from what is called the "free-rider" problem where at least one person doesn't carry his or her share of the load. Top-performing employees quickly grow disenchanted with having to carry free riders and leave.



- 41) These are the difficulties in designing team compensation plans: (1) Variety of teams makes it difficult to determine one consistent type of compensation plan. (2) Defining teams at too broad a level dilutes the motivational impact of incentives, yet too small a team definition encourages negative behaviours. (3) Some plans simply get too complex. (4) Teams may not have control over all factors that go into their pay. (5) Plans are frequently not well communicated.
- 42) The following issues are key elements in designing a gain-sharing plan:

Strength of reinforcement: Incentive pay tends to encourage only those behaviours that are rewarded.

Productivity standards: Almost all group incentive plans use a historical standard that involves the choice of a year's performance to use for comparison with current performance. Sharing the gains-split between management and workers: Part of the plan must address the relative share paid to management and workers of any profit savings generated.

Scope of the formula: These can vary in the scope of inclusions for both the labour inputs in the numerator and productivity outcomes in the denominator. Performance measures have expanded beyond traditional financial measures.

Perceived fairness of the formula: One way to ensure the plan is perceived as fair is to let employees vote on whether implementation should go forward. This and union participation in program design are two elements in plan success.

Ease of administration: Sophisticated plans with involved calculations of profits or costs can become too complex for existing company information systems.

Production variability: One of the major sources of problems in group incentive plans is failure to set target levels. A good plan ensures that environmental influences on performance, not controllable by plan participants, are factored out when identifying incentive levels.

- 43) One way to ensure that a gain-sharing plan is perceived as fair is to let employees vote on whether implementation should go forward. This and union participation in program design are two elements in plan success.
- 44) One approach to explaining why executives receive such large sums of money involves social comparisons. In this view, executive salaries bear a consistent relative relationship to the compensation of lower-level employees. When salaries of lower-level employees rise in response to market forces, top executive salaries also rise to maintain the same relative relationship. A second approach to understanding executive compensation focuses less on the difference in wages between executive and other jobs, and more on explaining the level of executive wages. The premise in this economic approach is that the worth of a CEO should correspond closely to some measure of company success, such as profitability or sales. A third view of CEO salaries, based on agency theory, incorporates the political motivations that are an inevitable part of the corporate world. Sometimes, this argument runs, CEOs make decisions that aren't in the economic best interest of the firm and its shareholders. One variant of this view suggests that the normal behaviour of a CEO is self-protective—CEOs make decisions to solidify their position and to maximize the rewards they personally receive.

45) There are five basic elements of most executive compensation packages:

- (1) Base salary: Being competitive is a very important factor in the determination of executive base pay. Although formalized job evaluation still plays an occasional role in determining executive base pay, other sources are more important. Particularly important is the opinion of a compensation committee of the company's board of directors.
  - (2) Bonuses: Annual bonuses play a major role in executive compensation and are primarily designed to motivate better performance. Today, bonuses are given to 90 percent of executives. The types of organizations that rely exclusively on base salary for total direct compensation typically have one or more of the following characteristics: (a) tight control of stock ownership, (b) not-for-profit institutions, or (c) firms operating in regulated industries.
  - (3) Long term incentives: By far the most common long-term incentive remains the executive stock option.
  - (4) Employee benefits: Because many benefits are tied to income level, executives typically receive higher benefits than most other exempt employees. Beyond the typical benefits, however, many executives also receive additional life insurance, exclusions from deductibles for health care costs, and supplementary pension income exceeding the maximum limits permissible under legal guidelines for registered (eligible for tax deductions) pension plans.
  - (5) Perquisites: Perquisites, or "perks," are designed to satisfy several types of executive needs. One type of perk could be classified as internal, providing a little something extra while the executive is inside the company: luxury offices, executive dining rooms, special parking. A second category also is designed to be company-related but for business conducted externally: company-paid membership in clubs/associations, payment of hotel, resort, airplane, and auto expenses. The final category of perquisites, called personal perks, includes such things as low-cost loans, personal and legal counselling, free home repairs and improvements, personal use of company property, and expenses for vacation homes.
- 46) Perquisites, or "perks," are designed to satisfy several types of executive needs. One type of perk could be classified as internal, providing a little something extra while the executive is inside the company: luxury offices, executive dining rooms, special parking. A second category also is designed to be company-related, but for business conducted externally: company-paid membership in clubs/associations, payment of hotel, resort, airplane, and auto expenses. The final category of perquisites, called personal perks, includes such things as low-cost loans, personal and legal counselling, free home repairs and improvements, personal use of company property, and expenses for vacation homes.
- 47) Dual career tracks provide two different ways of progressing in an organization, each reflecting different types of contributions to the organization's mission. The first, or managerial track, ascends through increasing responsibility for supervision or direction of people. The professional track ascends through increasing contributions of a professional nature, which do not mainly entail the supervision of employees.