

# Strategic Compensation

A Human Resource  
Management Approach

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**NINTH  
EDITION**

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# Preface

The measure of a company's success is as much a function of the way it manages its employees as it is a function of its structures and financial resources. Compensating employees represents a critical human resource management practice: Without strategic compensation systems, companies cannot attract and retain the best-qualified employees. Spending more than is necessary to attract and retain top talent adds costs unnecessarily to companies in search of competitive advantage.

The purpose of this book is to provide knowledge of the art and science of compensation practice and its role in promoting companies' competitive advantage. Students will be best prepared to assume the roles of competent compensation professionals if they possess a grounded understanding of compensation practices and the environments in which business professionals plan, implement, and evaluate compensation systems. Thus, we examine the context of compensation practice, the criteria used to compensate employees, compensation system design issues, employee benefits, challenges of compensating key strategic employee groups, pay and benefits around the world, and challenges facing compensation professionals.

## New to the Ninth Edition

1. *Crunch the Numbers!* are data driven exercises written to provide students with an opportunity to analyze data about one or more compensation issue contained within the respective chapters. One of the key skills a successful compensation professional should have is quantitative analysis for making informed compensation decisions. There are two exercises per chapter, which are assignable. The first exercise is contained at the end of each chapter and in MyManagementLab. An additional exercise appears in MyManagementLab only. Answers are found in the Instructors Manual and in the instructor's section of MyManagementLab.
2. Dozens of new company examples, including Apple Computer, Boeing, Uber, and Wyeth Pharmaceuticals, appear throughout the book, bringing discussions of compensation practices to life.
3. The ninth edition includes 39 additional concepts and practices to maintain the book's position on leading edge knowledge and practice. Some of these concepts and practices include definitive proxy statements, point factor leveling, and the newly approved CEO pay-ratio rule. More than 150 new endnotes document the substantially updated material. For example, Chapter 15 includes a discussion of a possible increase to the federal minimum wage rate and its potential impact on a company's practice.
4. Each chapter contains a feature titled *Watch It* which highlights a short video of a company's experience with particular elements of compensation or HR-related issues, and it is integrated within the chapter material. The video and accompanying questions are available in MyManagementLab.
5. The ninth edition has 15 chapters, which is one fewer than in the eighth edition. Specifically, Chapter 10 in the eighth edition on retirement plans and health care plans has been revised and streamlined, and the material redistributed to Chapter 9 (Discretionary Benefits) and Chapter 10 (Legally Required Benefits). In the ninth edition, employer-sponsored retirement plans appear in Chapter 9 and employer-sponsored health care appears in Chapter 10, to properly represent this practice as a legally required benefit under the *Patient Protection and Affordable Care Act of 2010*.
6. An expanded chapter summary is organized by learning objectives.

## MyManagementLab Suggested Activities

For the ninth edition, the author is excited that Pearson's MyManagementLab has been integrated fully into the text. These new features are outlined below. Making assessment activities available online for students to complete before coming to class will allow you the professor more discussion time during the class to review areas that students are having difficulty in comprehending.

## Chapter Warm-Up

Students can be assigned the Chapter Warm-Up before coming to class. Assigning these questions ahead of time will ensure that students are coming to class prepared.

## Watch It

This feature recommends a video clip that can be assigned to students for outside classroom viewing or that can be watched in the classroom. The video corresponds to the chapter material and is accompanied by multiple choice questions that re-enforce student's comprehension of the chapter content.

## Crunch The Numbers

There are two data-driven exercises per chapter, one in the book and both in MyManagementLab. Answers are found in the Instructors Manual and in MyManagementLab.

## Assisted-Graded Writing Questions

These are short essay questions that the students can complete as an assignment and submit to you, the professor, for grading.

## About This Book

This book contains 15 chapters, lending itself well to courses offered as 8-week modules, 10-week quarters or, 15-week semesters. The chapters are organized in six parts and an epilogue (contained in Chapter 15):

- Part I: Setting the Stage for Strategic Compensation
- Part II: Bases for Pay
- Part III: Designing Compensation Systems
- Part IV: Employee Benefits
- Part V: Contemporary Strategic Compensation Challenges
- Part VI: Compensation Issues Around the World
- Epilogue: Challenges Facing Compensation Professionals

Course instructors on an 8-week module schedule or a 10-week schedule might consider spending about two weeks on each part. Instructors on a 15-week schedule might consider spending about one week on each chapter.

A practical approach to teaching compensation will focus on the considerations and practices common in the field of compensation. This textbook is well suited to a variety of students, including undergraduate and master's degree students. In addition, this text was prepared for use by all business students, regardless of their majors. Both human resource management majors and other majors (e.g., accounting, finance, general management, international management, marketing, and organizational behavior) will benefit equally well from *Strategic Compensation*. After all, virtually every manager, regardless of functional area, will be involved in making compensation decisions. Both practitioners beginning work in compensation and current professionals will find *Strategic Compensation* a useful reference. Among the features, *Compensation in Action* will clarify the connections between compensation and other functions.

## Available Teaching and Learning Aids

The teaching and learning accessories are designed to promote a positive experience for both instructors and students.

A feature titled *Compensation in Action* appears at the end of every chapter in the text. This feature provides clear operational points to illustrate how line managers, employees, and compensation professionals interact to put compensation concepts into practice. The feature was prepared by Mr. Gentz Franz, Director of Development at the University of Illinois.

Short end-of-chapter cases have been included in the text. These cases were written by Professor Lori Long of Baldwin-Wallace College about real-world compensation issues, with questions to facilitate class discussion or to be used as homework assignments. The new *Crunch the Numbers!* feature, as described previously, appears in each chapter following the case as well as in MyManagementLab as assignable exercises. This feature provides students with an opportunity to provide a quantitative analysis of data pertinent to compensation practice.

## Building Strategic Compensation Systems Project

This accompanying experiential case available online in MyManagementLab will allow students to work in small compensation consulting teams charged with the responsibility for developing a compensation plan for a company named e-sonic. The project is divided into four sections. The first section, *Strategic Analysis*, is described fully in the casebook for faculty and students who choose to complete this optional analysis of the business environment prior to the remaining three sections that directly address compensation system design, and it relates to Chapter 1 of the textbook.

*Section 1:* Chapter 6

*Section 2:* Chapter 7

*Section 3:* Chapters 2 through 5, 8 through 9

The development of a strategic analysis provides context for all decisions made regarding students' compensation systems throughout the project. The strategic analysis reveals firm-specific challenges, objectives, and initiatives that allow students to align the goals of a compensation system effectively with that of their company strategy.

Section 1 introduces students to the specification of internally consistent job structures. Through writing job descriptions, the development of job structures, and both the development and implementation of a point job evaluation method to quantify job differences objectively, students build the framework for internal equity.

Section 2 shifts students' focus outside of their firm to understand its relationship with the external marketplace. Students will use market survey data to compare pay rates of positions inside the firm with those in the marketplace to establish the foundations of market-competitive pay. The analysis of market data also leads students to the determination of appropriate pay-policy mixes for each of their job structures. In this section, students are asked to use CompAnalysis software developed by Howard Weiss at Temple University, which is also available on MyManagementLab. The software is enabled to work in Apple and PC products.

Finally, in Section 3, students will recognize the contributions of employees through the creation of a merit-pay system and put their plan into action by paying employees within their firm. Hypothetical pay discrepancies are introduced to each student group for resolution within the parameters of their designed compensation system. They are tasked with many of the difficult decisions that compensation professionals face on a daily basis.

The Strategic Analysis section and Sections 1 through 3 may each be completed in two to three weeks, which fits well with semester-long courses. Instructors whose courses include a variety of additional activities or span only 7 to 10 weeks may have students complete only three of the four sections in either configuration (Strategic Analysis and Sections 1 and 2 or Sections 1 through 3). The instructor may have student groups prepare written reports or oral presentations to the class. Report outlines are included in the casebook.

## Instructor Resources

At the Instructor Resource Center, [www.pearsonhighered.com/irc](http://www.pearsonhighered.com/irc), instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <http://247.pearsoned.com> for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available with this text:

- **Instructor's Resource Manual**
- **Test Bank**
- **TestGen® Computerized Test Bank**
- **PowerPoint Presentation**

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Joseph J. Martocchio