

Management 623
Compensation Management
October 2008

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Required Resources:

Textbook: Milkovich, G.T. & Newman, J.M. (2008) Compensation. (Ninth edition), McGraw-Hill Irwin. (ISBN: 978-0-07-296941-2)

There are also 6 cases and 4 extra readings that can be accessed in one .zip file using this internet link:

<http://people.tamu.edu/~wesson/623readings.zip>

Reading #1 - Chapter 6 “Motivation” from Colquitt, J.A., LePine, J.A. & Wesson, M.J. (2009). *Organizational Behavior: Improving Performance and Commitment in the Workplace*. McGraw-Hill Irwin: Burr Ridge, IL.

Reading #2 - Greenberg, J. (1990). Employee theft as a reaction to underpayment inequity: The hidden cost of pay cuts. *Journal of Applied Psychology*, 75, 561-568.

Reading #3 – Conducting a Performance Appraisal Interview (HBS 9-497-058)

Reading #4 - Gladwell, M. (2006). The Risk Pool. *The New Yorker*. August 28, 2006.

Course Description:

This is a course that deals with the strategic and technical considerations in the management of employee compensation in organizations; including but not limited to compensation strategy, internal alignment (job analysis and job evaluation systems), external competitiveness, legal issues, comparable worth, rewards as a consideration in motivation and satisfaction, wage levels and structures, merit ratings, individual and group incentives and benefit plans.

Course Objectives

The course extends students’ existing background and awareness of the problems involved in compensation and benefits by providing structured exercises, cases, and discussion of human capital / compensation issues. As a result of this course, students will be able to:

1. Diagnose compensation and benefit problems and issues in organizations.
2. Determine which compensation practices and policies may resolve various human capital problems.
3. Evaluate the effectiveness of compensation interventions for increasing organizational productivity and performance.

In addition, the course is designed to develop students' competencies in areas deemed critical to their future success as managers and leaders. These include: written and verbal communication skills, teamwork, analytical thinking, decision making skills, ethics, project planning and management, and leadership.

Teaching Philosophy

I wholeheartedly believe in the case-method of teaching. For each of the first three classes you will have two (relatively large) cases that will help to guide our discussion of the day's topics. We will also have numerous exercises performed during class. Ideally, you will not find me lecturing much during class. My goal is not to simply regurgitate what you have already read prior to class starting. I would much rather see us find ways in which to experientially apply what we have read to real-world situations. I believe you will learn as much from each other as you would ever learn from me and I try to organize my class to that effect. As such, class contributions (being prepared and being an active class participant) are *imperative* to a successful class for all of us. When you are not prepared, you let your instructor, yourself, and your classmates down.

Requirements and Grading:

| | |
|-----------------------------------|-----|
| Individual case summaries | 20% |
| Group presentation | 15% |
| Contributions to Class Discussion | 20% |
| Final Examination | 20% |
| Final Project | 25% |

Individual Case Write-ups

A three page write-up/summary of two of the assigned cases are required. Which of the two cases you choose is *up to you*. These reports will account for 20% of your final course grade (10% each). Each written analysis is due at the **START** of the class meeting in which the case is scheduled to be discussed; **no written analyses will be accepted AFTER the class discussion of the case under analysis**. Individual Case Write-ups should be typewritten, have a maximum length of 3 double-spaced pages (excluding references or appendices) with 12-point font size and 1 inch margins on all sides, stapled in one corner.

Each write-up must discuss what you consider to be the core problem we are dealing with in the case. In addition, the write-up must include your recommendations for how to proceed at the end of the case. All of the cases will come with questions or points to consider; you may use these questions to guide your write-up – but do not simply answer the questions. Your write-up should be a succinct summary of the problem with your recommendations on how to proceed. Some hints for a successful write-up follow:

- Keep in mind I have read the case. There is no need to rehash things for my benefit. It is obviously necessary to use the case and facts from the case to support your arguments and thoughts, however I do not need a blow by blow description or summary of the case.
- I'm looking for critical thought. Allow the case pre-class thought questions to guide your thinking as they usually detail some aspects of what I consider to be appropriate. However, those questions should not by any means be considered exhaustive and if you feel there is another issue or problem that is important to discuss, by all means do so.
- *Showing that you have read and understood the materials surrounding the case is very important.* Do not feel that you need to limit yourself to these materials as we obviously build on what we know as the course progresses, but I will be looking for evidence that you understand and have incorporated the underlying material that deals with the case in question.
- When possible, come to a conclusion with a recommendation of what you feel should be done in the case. Specific recommendations and supporting arguments on what should be done will always be looked on favorably especially in comparison to general recommendations that have little or no support to them. Do your best not to make unsubstantiated broad comments. (i.e. "My solution is that they need to communicate better." is generally not a good statement to make.)

Group Presentation

This requirement provides students with the opportunity to analyze and present in class one of the compensation problems currently facing your or other organizations using material *over and above* that read for class. Students will assume the role of a key decision-maker, break down complex compensation problems, consider the likely outcomes for various courses of action, and develop reasoned, effective alternatives.

Students will be assigned into teams on the first day of class and given a list of potential topics to present. These topics will be presented during the last class period. Each group will have 25 minutes to present. Groups will spend time during and outside of the class developing a presentation on the topic they are assigned and then will present the topic to the class. The grade for the presentation will be based on the *presentation rating form* found at the end of the syllabus.

Contributions to Class Discussion

As working professionals, students have many experiences that embody key principles relevant to compensation management. Moreover, active engagement with course ideas and concepts (i.e., thinking about how they apply and why, generating questions or examples) helps develop well-rounded, reasoned judgments. Finally, research shows that students learn more when they participate actively. For these reasons, contribution in class discussions is an important component of the class.

Effective contribution involves asking penetrating questions relevant to issues under discussion and offering new insights or angles on material that expand the scope or depth of issues being considered. It includes *listening carefully to logic or ideas in others' comments*, showing up to each class meeting on time and prepared, and commenting when you have a point that adds value (rather than commenting just to say something). It does **not** mean sharing every single idea that occurs to you, disrespecting others' comments, or dominating the discussion.

At times throughout the semester, students will be expected to **role-play** characters in the cases. Part of the responsibility of preparing for the cases in this class is to envision the expectations of employee responses to management decisions. At the same time, it is important to think about the words one would use to get a point across to employees you are trying to manage. These role-plays will be considered an integral part of class discussion.

I will use these standards to evaluate contributions to class. I expect that students will attend each class meeting on time and avoid leaving early. We will begin class at 8:00 a.m. and end at 5:30 p.m. each day. We will discuss breaks and daily schedule expectations at the beginning of each class session.

Final Project

Students will submit (by the beginning of class on Day 3) a 3-4 sentence proposal of a compensation-oriented topic that is particularly relevant to your personal situation or is of interest to you. Ideally, this topic will not have been discussed in class or perhaps only discussed very briefly. I will either grant permission for the topic outright or give you some potential suggestions that might make your job easier or produce a better result.

After permission for the topic has been granted, students are expected to develop a well-researched (using materials not found in class) comprehensive paper on their topic area. The Final Project should be typewritten, have a maximum length of 10 double-spaced pages (excluding references or appendices) with 12-point font size and 1 inch margins on all sides, stapled in one corner.

Evaluation criteria for the written analyses include the following: professionalism—20%, clarity & content—35%, and soundness of judgment—45%. All papers will be graded on a scale of 0–100 points.

More detail on the Final Project will be presented in class.

Final Examination

The final exam will take place on the final day of class. Exams will consist mainly of multiple choice questions (70%) and the other portion will consist of open-ended, short-answer questions. The exam will be discussed in detail during class.

Other Policies and expectations:

Appointments with Instructor

Appointments with the instructor can be scheduled directly with the instructor during class time. I will be available throughout the time between the two class meetings. The instructor will also try to be available for brief questions during class breaks and at lunch. You may also e-mail me and/or arrange for a phone meeting.

Incompletes

A grade of I (incomplete) will not be assigned except in the case of a documented emergency. Late assignments will be penalized as identified with each project. Extra work to raise a grade is not permitted by University policy. In every case, your immediate communication with the instructor will most likely lead to a resolution regarding your need for more time to complete course requirements.

Scholastic Misconduct

Scholastic misconduct is defined broadly as "any act that violates the rights of another student in academic work or that involves misrepresentation of your own work. Scholastic dishonesty includes (but is not necessarily limited to) cheating on assignments or examinations; plagiarizing, which means misrepresenting as your own work any part of work done by another; submitting the same paper, or substantially similar papers, to meet the requirements of more than one course without the approval and consent of all instructors concerned; depriving another student of necessary course materials; or interfering with another student's work." **Students who participate in any of these activities will receive an F in this course and will be subject to University disciplinary action.**

Assignment Schedule

I promise to do my best to keep us on track with regard to the following schedule – but sometimes class needs dictate expanding certain discussions and pushing topics to a following day. Regardless, you will never be expected to have read something outside of what is listed below for each day.

DAY ONE - Thursday, October 16

Required Readings: Chapters 1, 2, 3, 5, 6 from Compensation Text

Case A – Human Resources at the AES Corporation: The Case of the Missing Department, HBS, HR3

Case B - Hitting the Wall: Nike and International Labor Practices

Topics Covered: Introduction to Compensation
Compensation Strategy
Internal Alignment
Job Evaluation

DAY TWO - Friday, October 17

Required Readings: Chapters 7, 8, 9, 10 from Compensation Text
Reading #1 – “Motivation” Chapter
Reading #2 - “Theft” Article

Case C - Sales Force Training at Arrow Electronics (A) (HBS 9-905-041)

Case D - Performance Pay at Safelite Auto Glass (A)

Topics Covered: External Competitiveness
Motivation
Pay for Performance

DAY THREE - Thursday, October 23

Required Readings: Chapters 11, 14, 18 from Compensation Text
Reading #3 – “Conducting a Performance Appraisal” article

Case E – Merck & Co. (A)

Case F - Rob Parson at Morgan Stanley (A)

Topics Covered: Performance Management
Compensation of Special Groups
Budgets and Administration

DAY FOUR - Friday, October 24

Required Readings: Chapter 16 from Compensation Text

Reading #4 – “The Risk Pool” Article

Topics Covered: International Pay Systems
Benefits
Class Group Presentations
Final Exam

CASE LIST AND PRE-CLASS THOUGHT QUESTIONS

- A. Human Resources at the AES Corporation: The Case of the Missing Department, HBS HR3
- B. Hitting the Wall: Nike and International Labor Practices (HBS 9-700-047)
- C. Sales Force Training at Arrow Electronics (A) (HBS 9-905-041)
- D. Performance Pay at Safelite Auto Glass (A) (HBS 5-902-187)
- E. Merck & Co. (A) (HBS 9-491-005)
- F. Rob Parson at Morgan Stanley (A) (HBS 9-498-054)

The pre-class thought questions that are listed below are not meant to be exhaustive – they are simply designed to give you some ideas about what I think are important aspects of the case. The questions are not a representation of all the issues in the case and should not limit your thoughts or our discussion in class.

Human Resources at the AES Corporation

- 1) As an investor, are there aspects of AES that you wouldn't like?
- 2) Why can't other companies do what AES has done?
- 3) Are there aspects of AES human resource practices that need substantial revising? If so, how would these changes likely affect the culture?
- 4) How do we know if the employees at AES are doing a good job?

Hitting the Wall: Nike and International Labor Practices

1. Does Jeff Ballinger have a convincing argument about Nike? Does Nike have a convincing response?
2. How well has Nike handled the publicity surrounding its labor practices? Could or should the company have done anything differently?
3. What is a "fair wage" in Vietnam? How should Nike think about it?

Sales Force Training at Arrow Electronics (A)

1. What do we know about Arrow Electronics and the electronics industry? What are the strategic issues to be addressed here?
2. How would you assess the level of internal equity and external competitiveness of Arrow's current compensation plan.
3. What would you do if you were in Kaufman's position?

Performance Pay at Safelite Auto Glass (A)

1. Why was the productivity of the Safelite installers so low?
2. Does the proposed PPP plan address the problems described in question 1? Does it introduce new problems? Explain.
3. What are the pros and cons of switching from wage-rates to piece-rate pay? Are Safelite installers good candidates for piece-rate pay? Why or why not?
4. Should there be a guaranteed wage? If so, how should it be set?
5. What are the likely consequences of a switch from wage to piece rates for:
 - Turnover
 - Recruitment
 - Productivity
 - Product Quality

Merck & Co. (A)

1. Should the performance appraisal and salary administration system be revised? Why?
2. What changes would you recommend? How should the changes be implemented? Carefully consider the consequences of your recommendations. Consider all aspects of your proposal carefully. It's not enough to suggest an alternative without thinking of the potential side effects. How will you "sell" your new program to the employees?

Rob Parson at Morgan Stanley (A)

1. What are the advantages and disadvantages of a 360 degree feedback system? Is it appropriate in all contexts?
2. What is your assessment of Morgan Stanley's evaluation process?
3. Should Rob Parson be promoted? Why or why not?

Presentation Feedback Form

Compensation Management (623)

Professor Wesson – October 2008

Team: _____

Assignment: _____

Performance Rating

| Grading Dimension | Needs | | | |
|---|--------------------|-------------------|---------------|------------------|
| | Improvement | Acceptable | Strong | Excellent |
| Organization: Presentation Structure and Flow (10%) | | | | |
| <i>Introduction</i> : Clear overview of <i>who</i> will do <i>what</i> | [] | [] | [] | [] |
| <i>Flow</i> : Members fully introduce each other and topics | [] | [] | [] | [] |
| <i>Individual Summaries</i> : Provided in lengthy sections | [] | [] | [] | [] |
| <i>Conclusion</i> : Major point from each sub-section and accompanying logic is clearly highlighted | [] | [] | [] | [] |
| <i>Time Management</i> | [] | [] | [] | [] |
| <i>Professionalism</i> : Confidence, preparation, poise | [] | [] | [] | [] |

Organization Grade: _____ X .10 = _____

| | | | | |
|---|-----|-----|-----|-----|
| Visuals: Slides, Charts, Handouts, ... (20%) | | | | |
| <i>Introductory Visual</i> : Lays out <i>who</i> will do <i>what</i> | [] | [] | [] | [] |
| <i>Style</i> : Visuals are consistent in style across all team members | [] | [] | [] | [] |
| <i>Design</i> : Visuals facilitate extemporaneous presentation (the fewer words the better) | [] | [] | [] | [] |
| <i>Tables & Figures</i> : Used to display data and complex information efficiently | [] | [] | [] | [] |
| <i>Conclusion Visual</i> : Major points highlighted | [] | [] | [] | [] |

Visuals Grade: _____ X .20 = _____

| | | | | |
|---|-----|-----|-----|-----|
| Audience Involvement: Fostering Participation (10%) | | | | |
| <i>Critical Thinking</i> : Audience challenged to think about and grapple with a key issue facing the team in its work on this assignment | [] | [] | [] | [] |
| <i>Creativity and Innovation</i> : Involvement method is unique and distinctive from others used | [] | [] | [] | [] |
| <i>Effectiveness-to-Efficiency Ratio</i> : Degree to which meaningful involvement is accomplished in a short amount of time | [] | [] | [] | [] |

Audience Involvement Grade: _____ X .10 = _____

Presentation Feedback (Continued)

Page 2

Performance Rating

| Grading Dimension | Needs | | | |
|---|--------------------|-------------------|---------------|------------------|
| | Improvement | Acceptable | Strong | Excellent |
| Content: Focus, Depth, Logic/Justification (50%) <i>Focus:</i> Questions asked in the assignment are clearly answered by the team | [] | [] | [] | [] |
| <hr/> <hr/> <hr/> <hr/> | | | | |
| <i>Depth:</i> Answers are consistently comprehensive | [] | [] | [] | [] |
| <hr/> <hr/> <hr/> <hr/> | | | | |
| <i>Logic:</i> Primary and secondary research is used to build a foundation that persuasively justifies your observations and proposals | [] | [] | [] | [] |
| <hr/> <hr/> <hr/> <hr/> | | | | |
| Content Grade: _____ X .50 = _____ | | | | |
| Answering Questions: Response Effectiveness (5%) <i>Team Demeanor:</i> Body language and verbal responses show respect for audience | [] | [] | [] | [] |
| <i>Division of Labor:</i> All team members involved in answering questions | [] | [] | [] | [] |
| <i>Focus:</i> Responses are clear, direct, and appropriately concise | [] | [] | [] | [] |
| Answering Questions Grade: _____ X .05 = _____ | | | | |
| Overall Presentation Grade: _____ | | | | |