

MHR 610 - Spring, 2009

Employee Compensation: Theory & Practice

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CLASS: M 2:25 - 5:25 in 1170 Grainger

OFFICE HOURS: W 1:30 - 3:00, or by appointment. I also am continuously available via e-mail - please put MHR 610 on the subject line.

COURSE DESCRIPTION

This course focuses on how managers can strategically utilize compensation to attract, retain, and motivate qualified employees. Much of the course revolves around application of principles to a case where students design all aspects of a compensation plan.

OBJECTIVES

- To understand the guiding principles of effective compensation systems: internal alignment, external competitiveness, and pay-for-performance;
- To recognize the strategic implications of pay decisions;
- To recognize the criticality of procedural fairness and evaluation in creating pay systems;
- To develop an understanding of the multi-disciplinary theories underlying pay system design;
- To acquire substantial experience in building a pay system from a strategic perspective;
- From a practical perspective, the course should provide students with the skills and understanding necessary for employment as an entry-level compensation specialist. It should also provide a valuable knowledge base for students going on to work in other management areas. Finally, the course should empower students through providing an understanding of how their own pay is determined.

MATERIALS: Milkovich, G. T., & Newman, J. M. (2008).
Compensation, 9th edition. Irwin: Boston, MA.

Milkovich, G. T., & Milkovich, C. (2008).
Cases in Compensation, 10th edition. Compensation: Ithaca, NY.

Readings available via your MyUW portal

LISTSERVE: You are on a listserv (mhr610-1-s09@lists.wisc.edu) and will receive periodic class-related news from me (e.g., I use this to post answers to questions about the case that are relevant for all groups).

REQUIREMENTS

All assignments are due at the date and time scheduled. Late assignments will be penalized one half-letter grade if late on the due date and one full letter grade per day thereafter.

Compensation Case (45% of grade):

This 3-phase compensation case will require you to design and implement a compensation system for FastCat, a fictional company. In doing so, you will learn how to apply compensation theory and principles, how to justify and communicate your recommendations to executives, and how to evaluate your system. Primary written guidance for this case is in Cases in Compensation, but I will supplement these instructions at times. The project will be done in assigned groups.

Group grades for each phase will be based on the following criteria and approximate weights:

<u>Approximate weights</u>	<u>Criteria</u>
45	<u>Technical Adequacy</u> . The extent to which you correctly apply the concepts learned in the class.
40	<u>Rationale</u> . The extent to which you provide well-developed arguments for the recommendations that you make in the report.
15	<u>Style</u> . Clarity of presentation, correct grammar and spelling, and professional appearance.

Peer evaluation (5% of grade):

You will be required to confidentially assess your teammates in terms of contribution to the overall product. Hence, free-riders will pay consequences. We will design our peer evaluation assessment tool during class as part of our study of performance appraisal.

Special Group Project (20% of grade: 15% paper, 5% presentation)

Although you will create a formal, rule-based compensation system for FastCat, it is also critical to remember that approaches to pay can vary dramatically for special groups. Your textbook (chapter 14) documents several groups that have particular interesting “special treatment” with regard to pay (e.g., contingent workers, boards of directors, executives). For this project I want you to analyze and critique the pay practices for a special group that interests you (not one of the chapter 14 groups). Possible examples include: players in any of the professional sports; any of the branches of the military; school teachers; lawyers in law firms; members of worker cooperatives; immigrant labor; university faculty; sports agents; book agents; novelists; artists; private investigators; carneys; criminals; farmers; actors; and union organizers. You must be able to find enough material on your group for a scholarly paper and an informative presentation.

Each presentation must provide a one page handout to every class member. The handout should summarize the key points of the presentation. Each presentation must also provide me with three test questions that tap into the major themes of the presentation. I will pick from these for the exam. Presentations will be given in the five weeks from March 30-April 27.

You can complete this section of the course either alone or with one partner. You will soon receive more detailed information on the requirements for this project (e.g., the specific format and length of the paper).

Exam (20% of grade):

The exam, to be administered on the final day of class will cover two areas. First, I will take at least one question from each of the special groups presentations. Second, I will ask some questions from the “post-FastCat” materials that we cover at the end of the semester.

Class participation (10% of grade):

The degree to which you consistently, and insightfully, contribute to the class will determine your class participation grade. Such contributions are encouraged during discussion of the readings and “your turn” exercises, and during lecture, guest speaker, and student presentations. You must come prepared to discuss the day’s assignment.

GRADING: Scale: 92 - A, 89 - AB, 82 - B, 79 - BC, 72 - C, 60 - D. Grade determination:

Phases I, II, III (group)	45% (15% each)
Peer assessment of individual	5%
Special group project	20% (15% written, 5% presentation)
Exam (special groups plus “other”)	20%
Class participation	10%

Total	100%

If you feel that a grade is incorrect, notify me in writing (e-mail qualifies) within one week of receiving the grade.

TENTATIVE SCHEDULE (subject to change)

<u>Date</u>	<u>Topic/Activity</u>	<u>Reading</u>	<u>Assignment</u>
1-26	Intro / Teams		
2-2	Internal consistency / Phase I intro	MN 1-3	#1
2-9	Internal consistency	MN 4-5	#2
2-16	Internal consistency / External competitiveness intro	MN 6	#3
2-18	***PHASE I DUE - 4113C Grainger – 5:00 pm***		
2-23	Phase I discussion / External competitiveness / Phase II intro	MN 7-8	#4
3-2	External competitiveness / guest speaker Phase II software demo	MN 7-8	#5
3-9	External competitiveness	MN 7-8	#6
3-23	Performance-based pay intro	MN 7-8	#7
3-25	***PHASE II DUE - 4113C Grainger – 5:00 pm***		
3-30	Phase II discussion / Performance-based pay / Phase III intro	MN 9-11	#8
4-6	Performance-based pay	MN 9-11	#9
4-13	Performance-based pay	MN 9-11	#10
4-15	***PHASE III DUE - 4113C Grainger - 5:00 pm***		
4-20	Phase III discussion / Benefits / Legal	MN 12-13, 17	#11
4-27	Exec comp / Labor / Intern. / Budgets	MN 14-18	#12
5-4	Catch-up/exam		
5-13	Final exam period – special groups paper due		

ASSIGNMENTS (TENTATIVE)

1. Read the Kerr (1995) paper. Do you think Kerr's logic and assessment of organizational reward systems is sound? Any weaknesses in his position? Is there an easy fix to this tendency (if so, what)? Can you think of examples (real or hypothetical) of when rewarding A while hoping for B is a plus for the organization?
2. For the Your Turn exercise (p. 108, MN), answer the first three questions.
3. Critically evaluate the Bloom (1999) paper. Do not worry about the statistical analyses employed. How do equity, expectancy, and tournament theories fit with his work? Is he applying the principles from these theories correctly? What does this study tell us regarding pay dispersion in the traditional (non-baseball) workforce? Do his conclusions make sense to you and agree with your sense of pay differentials and their effects?
4. Your Turn exercise (p. 174, MN). Answer all questions.
5. Read the Levine (1993) article. Were the conceptual issues meaningful (why or why not); was the approach taken to study them effective (why or why not); what are the paper's implications for compensation theories and for practitioners; what did you think were particularly positive or negative aspects of the paper?
6. Your Turn exercise (p. 250, MN). Skip question 5, but answer all other questions. Work with three jobs that you find interesting.
7. Read the Kohn (1998) and Gupta & Shaw (1998) articles. Who do you feel won this debate (and what in particular made you feel that way); can you think of situational conditions (e.g., something about the work/pay environment) under which you might agree more with the article that you found least convincing; given your experience, and the arguments in the articles, how, if at all, do you feel intrinsic and extrinsic motivation are related?
8. Your Turn exercise (p. 284, MN). Answer all questions.
9. Read the Beer & Cannon paper on pay-for-performance (PFP). Think about the following questions. (a) What were the most critical factors in pay-for-performance not working at HP? (b) Which of the cases is closest to being a success story, and why did this plan work better than the plans in the other cases? (c) How might the plans have been designed better? (d) What are the roles and subsequent implications of employee communication/participation in HP's PFP plans? (e) Speculate about HR's role, or lack thereof.

10. Read the Longenecker et al. (1987) article on politics and performance appraisal. How do you feel about these executives (e.g., are they insightful, delusional, arrogant, pragmatic, etc.), and why do you feel so? So, bottom line, is politics in performance appraisal a problem or an opportunity for managers (and why do you feel that way)? Are other areas of comp/HR also likely candidates for political influence (if so, how)?
11. Read the Richter 1998 article, entitled Compensation Management & Cultural Change at IBM: Paying the People in Black at Big Blue. This article brings together several themes and issues from the semester. What is, and what is the relevance of, the “discomfort” factor that Richter refers to a few times? Based on what you have learned in the course, what do you like and dislike about IBM’s pay plan changes (e.g., what do you see that could be problematic under certain circumstances)?
12. Read the Fortune articles on CEO pay. What are the most alarming, or most misunderstood (by the authors), issues raised in the articles. Bring in theoretical perspectives to support your positions.