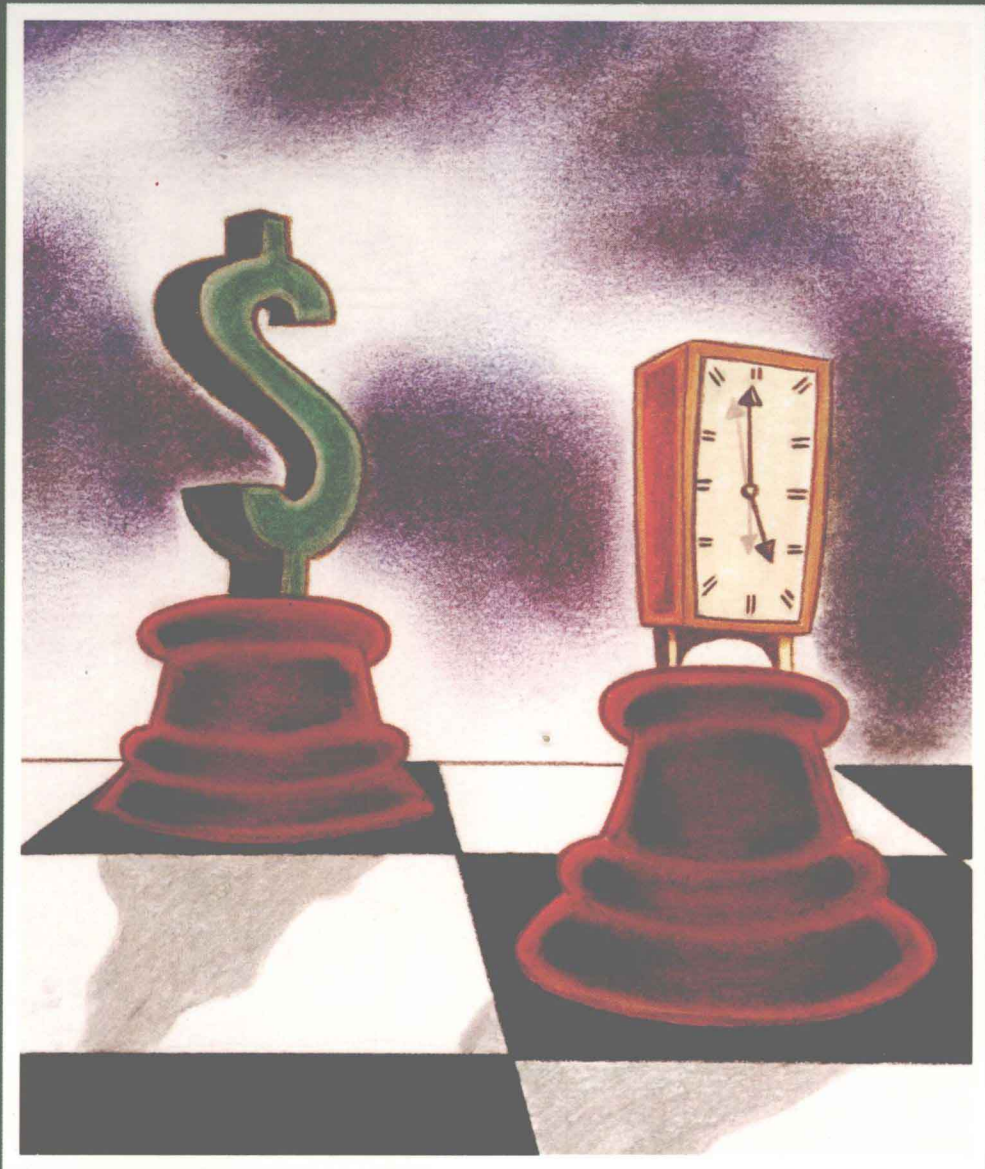


STRATEGIC COMPENSATION

A HUMAN RESOURCE
MANAGEMENT APPROACH

FOURTH EDITION



JOSEPH J. MARTOCCHIO

Fourth
Edition

STRATEGIC COMPENSATION

A Human Resource Management Approach

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To my sister Helen.
Always watching out for her little brother (me)!

Preface

Companies' success in the marketplace is as much a function of the way business practitioners manage employees as it is a function of companies' structures and financial resources. Compensating employees represents a critical human resource management practice: Without sound compensation systems, companies cannot attract and retain the best-qualified employees.

Compensation systems can promote companies' competitive advantage when they are properly aligned with strategic goals. Likewise, compensation practices can undermine competitive advantage when they are designed and implemented haphazardly. The title of this book—*Strategic Compensation: A Human Resource Management Approach*—reflects the importance of employees as key elements of strategic compensation programs.

The purpose of this book is to provide knowledge of the art 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, and the contemporary challenges that compensation professionals will face well into this century.

ABOUT THIS BOOK

This book contains 14 chapters, lending itself well to courses offered as 10-week quarters or 15-week semesters. The chapters are organized in five parts:

- 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

Course instructors on a 10-week schedule might consider spending 2 weeks on each part. Given a 15-week schedule, course instructors might consider spending 1 week on each chapter.

Each chapter contains a chapter outline, learning objectives, key terms, and discussion questions. In addition, each chapter includes two features. The “Stretching the Dollar” and “Flip Side of the Coin” features describe challenges facing compensation professionals. These features are described in New to the Fourth Edition.

This textbook is well suited to a variety of students, including undergraduate and master's degree students. In addition, the book was prepared for use by all business students, regardless of their majors. Both human resource management majors and other majors (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. Practitioners beginning work in compensation or current professionals will find *Strategic Compensation* a useful reference.

NEW TO THE FOURTH EDITION

The fourth edition has been thoroughly revised to describe current issues facing compensation professionals. All except one of the “Flip Side of the Coin” and “Stretching the Dollar” features are new, representing the most pressing issues facing compensation professionals today. In addition, David Barcelona and I prepared an experiential case simulation (available from Prentice Hall at www.prenhall.com/martocchio) titled *Building Strategic Compensation Systems* to accompany this textbook. This simulation will allow students to develop a strategic compensation plan in four stages, and apply core knowledge about compensation systems explained in the *Strategic Compensation* textbook.

In a nutshell, *Building Strategic Compensation Systems* 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 4 sections, which correspond to fundamental goals of compensation practitioners as described in chapters in this textbook:

Strategic

Analysis: Chapters 1 through 3

Section I: Chapter 7

Section 2: Chapter 8

Section 3: Chapters 4 through 6 and 9

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

Section I 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 evaluation method to objectively quantify job differences, students build the framework for internal equity.

Section II 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.

Finally, in Section III, students will recognize the contributions of individual 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, fitting 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 3 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 instructor's and student's casebook versions.

AVAILABLE TEACHING AND LEARNING AIDS

The teaching and learning accessories are designed to promote a positive experience for both instructors and students. Dr. David W. Oakes developed the teaching and learning aids for Strategic Compensation.

Instructor's Resource Manual with Test Item File

The instructor's resource manual contains learning objectives, chapter outlines, and discussion questions. In addition, the instructor's resource manual contains multiple-choice and short essay test questions. There are at least 25 multiple-choice questions and approximately 3 short essay questions for each chapter. The test item file contains the answers to the multiple-choice questions and suggested answers for the short essay questions. The test item file is also available in a Windows® format. Prentice Hall's custom test-generating software, TestGen-EQ®, allows manipulation of questions and easy test preparation.

Custom Web Site with Study Guide

Students and instructors can find a variety of usefully information on the custom Web site. Students can find a study guide at www.prenhall.com/martocchio. Dr. David W. Oakes designed this study guide to help students prepare for quizzes and tests. It includes key learning points, sample multiple-choice questions, and short, thought-provoking essay questions. Instructors can find resources for their lectures.

PowerPoint® Lecture Presentations

Strategic Compensation is accompanied by lecture visual presentations for each chapter based on Microsoft PowerPoint. These may be downloaded from the *Strategic Compensation* custom Web site with a password available from Prentice Hall.

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Allow me to give a rave review of my former master's degree student David Barcelona. David and I wrote the experiential case that accompanies *Strategic Compensation*. David is genuinely wise beyond his years, and he will become a major player in the field of compensation. Mark my words!

As in past editions, I thank Margaret Chaplan and Katie Dorsey. Margaret Chaplan, a labor librarian, provided invaluable assistance by sharing her wealth of knowledge. Katie Dorsey, a library clerk, also offered excellent reference assistance.

At Prentice Hall, I thank the following individuals for their guidance and expertise: Mike Ablassmeir, Rich Gomes, Melissa Yu, Suzanne Grappi, and Anne Howard. Many other professionals, particularly Bruce Hobart at Pine Tree Composition, worked behind the scenes in the design, marketing, and production of this edition. I thank each and every one of those individuals for their contributions.

Joseph J. Martocchio

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