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# *Strategic Compensation in Canada*

Richard J. Long



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# Strategic Compensation in Canada

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# Strategic Compensation in Canada

**Richard J. Long**

EDWARDS SCHOOL OF BUSINESS  
UNIVERSITY OF SASKATCHEWAN

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**Strategic Compensation in Canada, Fifth Edition**

by Richard J. Long

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*This book is dedicated to my family—Trisha, Jeffrey, Jeremy, and Michael—without whose support and forbearance it would never have been completed.*

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# PREFACE

The premise of this book is that an organization's compensation system can have a major impact on its success, but that the most effective compensation system may be very different from one organization to the next, and may even differ over time for the same organization. However, if there is no single compensation system that fits all organizations, this makes life very complicated for those who manage organizations.

The purpose of this book is to reduce this complexity by providing a systematic framework for identifying and designing the compensation system that will add the most value to the organization. Chapter 1 lays out a road map for how this book will do that. As you will see, the first half of the book focuses on developing the compensation strategy, and the second half focuses on how to transform the compensation strategy into an operating compensation system.

Achieving an effective compensation system requires a diagnostic approach. That is, to identify the most effective compensation system for a given organization, it is first necessary to understand that organization, its strategy, and its people. Part One of the book focuses on developing these understandings by first providing a road map to effective compensation (Chapter 1), a strategic framework for compensation (Chapter 2), and then a behavioural framework for compensation (Chapter 3).

Part Two provides the ingredients and process for formulating a compensation strategy. The three main components of a compensation system are examined, along with the choices to be made in determining the most appropriate compensation mix for a given firm (Chapter 4). Next, the menu of available choices of performance pay plans is presented (Chapter 5), along with the key factors in deciding which of these choices are suitable for inclusion in the compensation mix. After identifying factors that constrain compensation choices, Chapter 6 provides a process that should result in the formulation of the most appropriate compensation strategy for a given firm.

However, the formulation of the compensation strategy does not mark the end of the compensation process. Compensation strategy needs to be translated into an operating compensation system, one that results in an actual dollar value of compensation for every employee. Determining a compensation value for a given employee depends on a combination of the relative value of that employee's job to their employer (as determined through job evaluation), the value the labour market places on that job (as determined by compensation surveys), and the value of that employee's performance (as determined by performance appraisal). Part Three covers the many technical processes necessary to convert the compensation strategy into a compensation system, including those for evaluating jobs (Chapters 7 and 8), for evaluating the market (Chapter 9), and for evaluating individual employees (Chapter 10).

Following this, Part Four provides detailed guidance on the key issues in designing performance pay plans (Chapter 11) and indirect pay plans (Chapter 12).

Finally, Part Five of the book provides detailed guidance on the key issues in implementing a new compensation system and its ongoing operation (Chapter 13).

This book was written for two main purposes: to help those wishing to learn how to create effective compensation systems, and to serve as a useful source of information for practitioners. In so doing, it fills a gap in the textual resources available in Canada. Other Canadian books on compensation have lacked an integrated strategic framework and have tended to focus on either the behavioural principles in compensation or the technical details of compensation. Both of these are important, but what is needed is a balanced, comprehensive, and integrated presentation of strategic, behavioural, and technical principles. That is what this book seeks to provide.

The content of this book is based on a foundation of scientific research, informed by relevant theoretical principles and verified by actual organizational experiences. Although there is still much to learn about the design of effective reward and compensation systems, our state of knowledge about compensation has advanced to the point where effective use of the available knowledge will significantly increase the likelihood of organizational success.

To maximize its value as an effective learning tool, this book incorporates a number of features. Its content is based on a solid scientific foundation and is augmented by a variety of learning devices, but its writing style is informal in order to smooth the road to effective learning. Another key feature is the overall organizing framework for the book—the “road map” to effective compensation. Getting to any destination is facilitated by a conceptual map of how to get there. The entire book is organized around this conceptual road map.

The fifth edition of *Strategic Compensation in Canada* retains the features that have made this book the market-leading compensation text in Canada. Those features include chapter learning objectives, opening vignettes, “Compensation Today” features that illustrate aspects of compensation as actually practised in organizations, “Compensation Notebook” features to summarize key points in the chapter, extensive use of Canadian examples, margin definitions of key concepts, chapter summaries, listings of key terms, discussion questions, “Using the Internet” exercises, compensation exercises, and questions for case analysis. At the same time, all content and examples have been carefully reviewed and updated where appropriate. To help those who are preparing to write the National Knowledge Exam for the Certified Human Resources Professional (CHRP) designation, there is a list at the end of each chapter of the Required Professional Capabilities (RPCs) in the subject area of “Total Compensation” (one of the key subject areas included in the National Knowledge Exam) that are addressed in that chapter.

This book can stand alone as the principal resource for a course. However, student learning can be further enhanced by accompanying it with *Strategic Compensation: A Simulation* (Fifth Edition), also published by Nelson Education, which provides students with the opportunity to design an entire compensation system, right from formulation of compensation strategy to implementation of the new compensation system, complete with market-based actual dollars attached to the pay ranges. This simulation has been specifically designed by its authors (Richard J. Long and Henry Ravichander) to utilize all the steps along the road to effective compensation, as described in this fifth edition of *Strategic Compensation in Canada*. Also, the software has been upgraded significantly for

the fifth edition, making it compatible with both PC and Mac operating systems. Considerable attention has been devoted to making the simulation software more user-friendly and engaging.

## ANCILLARIES

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### Instructor Ancillaries

The **Nelson Education Teaching Advantage (NETA)** program delivers research-based instructor resources that promote student engagement and higher-order thinking to enable the success of Canadian students and educators.

Instructors today face many challenges. Resources are limited, time is scarce, and a new kind of student has emerged: one who is juggling school with work, has gaps in his or her basic knowledge, and is immersed in technology in a way that has led to a completely new style of learning. In response, Nelson Education has gathered a group of dedicated instructors to advise us on the creation of richer and more flexible ancillaries and online learning platforms that respond to the needs of today's teaching environments. Whether your course is offered in-class, online, or both, Nelson is pleased to provide pedagogically driven, research-based resources to support you.

The members of our editorial advisory board have experience across a variety of disciplines and are recognized for their commitment to teaching. They include

**Norman Althouse**, Haskayne School of Business, University of Calgary

**Brenda Chant-Smith**, Department of Psychology, Trent University

**Scott Follows**, Manning School of Business Administration, Acadia University

**Jon Houseman**, Department of Biology, University of Ottawa

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**Tanya Noel**, Department of Biology, York University

**Gary Poole**, Senior Scholar, Centre for Health Education Scholarship, and Associate Director, School of Population and Public Health, University of British Columbia

**Dan Pratt**, Department of Educational Studies, University of British Columbia

**Mercedes Rowinsky-Geurts**, Department of Languages and Literatures, Wilfrid Laurier University

**David DiBattista**, Department of Psychology, Brock University

**Roger Fisher**, Ph.D.

In consultation with the editorial advisory board, Nelson Education has completely rethought the structure, approaches, and formats of our key textbook ancillaries and online learning platforms. We've also increased our investment in editorial support for our ancillary and digital authors. The result is the Nelson Education Teaching Advantage and its key components: *NETA Engagement*, *NETA Assessment*, *NETA Presentation*, and *NETA Digital*. Each component includes one or more ancillaries prepared according to our best practices and may also be accompanied by documentation explaining the theory behind the practices.

*NETA Engagement* presents materials that help instructors deliver engaging content and activities to their classes. Instead of Instructor's Manuals that regurgitate chapter outlines and key terms from the text, NETA Enriched Instructor's Manuals (EIMs) provide genuine assistance to teachers. The EIMs answer questions like *What should students learn?*, *Why should students care?*, and *What are some common student misconceptions and stumbling blocks?* EIMs not only identify the topics that cause students the most difficulty, but also describe techniques and resources to help students master these concepts. Dr. Roger Fisher's *Instructor's Guide to Classroom Engagement (IGCE)* accompanies every Enriched Instructor's Manual. (Information about the NETA Enriched Instructor's Manual prepared for *Strategic Compensation in Canada*, Fifth Edition, is included in the description of the IRCD below.)

*NETA Assessment* relates to testing materials. Under *NETA Assessment*, Nelson's authors create multiple-choice questions that reflect research-based best practices for constructing effective questions and testing not just recall but also higher-order thinking. Our guidelines were developed by David DiBattista, a 3M National Teaching Fellow whose recent research as a professor of psychology at Brock University has focused on multiple-choice testing. All Test Bank authors receive training at workshops conducted by Professor DiBattista, as do the copy editors assigned to each Test Bank. A copy of *Multiple Choice Tests: Getting Beyond Remembering*, Professor DiBattista's guide to writing effective tests, is included with every Nelson Test Bank/Computerized Test Bank package. (Information about the NETA Test Bank prepared for *Strategic Compensation in Canada*, Fifth Edition, is included in the description of the IRCD below.)

*NETA Presentation* has been developed to help instructors make the best use of PowerPoint® in their classrooms. With a clean and uncluttered design developed by Maureen Stone of StoneSoup Consulting, NETA Presentation features slides with improved readability, more multimedia and graphic materials, activities to use in class, and tips for instructors on the Notes page. A copy of *NETA Guidelines for Classroom Presentations* by Maureen Stone is included with each set of PowerPoint slides. (Information about the NETA PowerPoint® prepared for *Strategic Compensation in Canada*, Fifth Edition, is included in the description of the IRCD below.)

*NETA Digital* is a framework based on Arthur Chickering and Zelda Gamson's seminal work "Seven Principles of Good Practice in Undergraduate Education" (*AAHE Bulletin*, 1987) and the follow-up work by Chickering and Stephen C. Ehrmann, "Implementing the Seven Principles: Technology as Lever" (*AAHE Bulletin*, 1996). This aspect of the NETA program guides the writing and development of our digital products to ensure that they appropriately reflect the core goals of contact, collaboration, multimodal learning, time on task, prompt feedback, active learning, and high expectations. The resulting focus on pedagogical utility, rather than technological wizardry, ensures that all of our technology supports better outcomes for students.

## IRCD

Key instructor ancillaries are provided on the *Instructor's Resource CD* (ISBN 978-0-17-654185-9), giving instructors the ultimate tool for customizing lectures

and presentations. (Downloadable Web versions are also available at [www.hrm.nelson.com](http://www.hrm.nelson.com).) The IRCD includes the following:

- **NETA Engagement:** The Enriched Instructor’s Manual was written by the text’s author, Richard Long. It is organized according to the textbook chapters and addresses eight key educational concerns, such as typical stumbling blocks student face and how to address them. Other features include lecture outlines, suggestions for end-of-chapter exercises, and notes for case questions.
- **NETA Assessment:** The Test Bank was written by Carlos Calao from Kwantlen Polytechnic University. It includes over 350 multiple-choice questions written according to NETA guidelines for effective construction and development of higher-order questions. Also included are over 100 true/false and over 60 short-answer questions. Test Bank files are provided in Word format for easy editing and in PDF format for convenient printing, whatever your system.

The Computerized Test Bank by ExamView® includes all the questions from the Test Bank. The easy-to-use ExamView software is compatible with Microsoft Windows and Mac OS. Create tests by selecting questions from the question bank, modifying these questions as desired, and adding new questions you write yourself. You can administer quizzes online and export tests to WebCT, Blackboard, and other formats.

- **NETA Presentation:** Microsoft® PowerPoint® lecture slides for every chapter have been created by Greg Cole from Saint Mary’s University. There is an average of 25 slides per chapter, many featuring key figures and tables from *Strategic Compensation in Canada*, Fifth Edition. NETA principles of clear design and engaging content have been incorporated throughout.
- **Image Library:** This resource consists of digital copies of figures and tables used in the book. Instructors may use these jpegs to create their own PowerPoint presentations.
- **DayOne:** DayOne—Prof InClass is a PowerPoint presentation that you can customize to orient your students to the class and their text at the beginning of the course.

## CourseMate

Nelson Education’s Human Resources CourseMate for *Strategic Compensation in Canada* brings course concepts to life with interactive learning and exam preparation tools that integrate with the printed textbook. Students activate their knowledge through quizzes, games, and flashcards, among many other tools.

CourseMate provides immediate feedback that enables students to connect results to the work they have just produced, increasing their learning efficiency. It encourages contact between students and faculty: you can choose to monitor your students’ level of engagement with CourseMate, correlating their efforts to their outcomes. You can even use CourseMate’s quizzes to practise “Just in Time”



teaching by tracking results in the Engagement Tracker and customizing your lesson plans to address their learning needs.

The *Strategic Compensation in Canada* CourseMate includes the following:

- An interactive ebook that includes note-taking and highlighting functionality.
- Interactive teaching and learning tools, including
  - Quizzes
  - Flashcards
  - Games
  - “Beat the Clock” and crossword games
- Student PowerPoint Slides
- Engagement Tracker, a first-of-its-kind tool that monitors student engagement in the course.

Watch student comprehension and engagement soar as your class engages with CourseMate. You can find the access code in the bound-in card. Ask your Nelson representative for a demo today.

### **Strategic Compensation: A Simulation**

*Strategic Compensation: A Simulation*, Fifth Edition, offers students the opportunity to design a comprehensive system from beginning to end—from strategy to implementation. The result is a complete compensation system with pay grades and pay ranges, performance pay, and benefits—expressed in actual dollar values—for employees at a Canadian firm. By giving students an opportunity to apply the conceptual knowledge of compensation they’ve gained from their text and classes, this simulation offers a richer understanding of both the concepts and the practical realities of compensation. Students also gain practical skills that employers value. Instructors have a choice of two firms for which student teams can design a compensation system.

The simulation has been designed by Richard Long and Henry S. Ravichander to accompany the fifth edition of Richard Long’s *Strategic Compensation in Canada*.

## **For the Student**

### **CourseMate**

The more you study, the better the results. Make the most of your study time by accessing everything you need to succeed in one place. The *Strategic Compensation in Canada* CourseMate includes the following:

- An interactive ebook that allows you to take notes, highlight, bookmark, search the text, and use in-context glossary definitions.
- Interactive learning tools, including
  - Quizzes
  - Flashcards
  - Games



- “Beat the Clock” and crossword games
- Student PowerPoint Slides

Visit [www.nelsonbrain.com](http://www.nelsonbrain.com) for more information and to access these resources for your text.

## CONTACT THE AUTHOR

The objectives for this book are ambitious, and it is up to readers to judge how effectively they have been achieved. The author would welcome any suggestions, comments, or other feedback from you, the reader. You can use email ([long@edwards.usask.ca](mailto:long@edwards.usask.ca)), fax (306-966-2514), telephone (306-966-8398), or postal mail (Richard Long, Edwards School of Business, 25 Campus Drive, University of Saskatchewan, Saskatoon S7N 5A7). I look forward to hearing from you!

*Richard J. Long, Ph.D., CHRP  
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