

Chapter 02 Strategy: The Totality of Decisions

Student: _____

1. "Supporting promotional growth opportunities" is an example of which of the following?
 - A.
 - B.
 - C.
 - D.
2. "Putting some skin in the game" refers to:
 - A.
 - B.
 - C.
 - D.
3. A compensation system that pays employees such that "some skin is in the game" means that
 - A.
 - B.
 - C.
 - D.
4. In which of the following country would it be most difficult for someone to move from one employer to another?
 - A.
 - B.
 - C.
 - D.
5. At the corporate level, a strategic compensation perspective addresses the question:
 - A.
 - B.
 - C.
 - D.

6. What level of strategy is the question "how do we gain competitive advantage"?
- A.
 - B.
 - C.
 - D.
7. The social, competitive and regulatory environment factors are most important for which type of strategy?
- A.
 - B.
 - C.
 - D.
8. Which of the following relationships within a pay system is accurate?
- A.
 - B.
 - C.
 - D.
9. A focus on competitor's costs is most closely associated with a _____ strategy.
- A.
 - B.
 - C.
 - D.
10. A compensation system using market-based pay is most likely to be part of a _____ strategy.
- A.
 - B.
 - C.
 - D.

11. Flexible-generic job descriptions would most likely be used with a _____ strategy.
- A.
 - B.
 - C.
 - D.
12. A compensation system focusing on system control and work specifications is most closely associated with _____ strategy.
- A.
 - B.
 - C.
 - D.
13. Whole Foods' policy of holding executive salaries to no more than 14 times average pay of full-time employees is an example of which strategic pay decision?
- A.
 - B.
 - C.
 - D.
14. Decisions regarding what forms compensation should be are part of _____.
- A.
 - B.
 - C.
 - D.
15. The choice to communicate and make open an organization's pay system to employees is an example of which strategic choice?
- A.
 - B.
 - C.
 - D.

16. The decision to base pay increases on individual or group performance is made within the _____ strategic compensation choices.
- A.
 - B.
 - C.
 - D.
17. A book listing the previous year's pay of all employees is part of Whole Foods "No-secrets" philosophy. This is an example of which strategic compensation choice?
- A.
 - B.
 - C.
 - D.
18. Whole Foods' decision to seek and engage employees who are going to help the company make money is an example of which strategic pay decisions?
- A.
 - B.
 - C.
 - D.
19. The second step of developing a total compensation strategy is to:
- A.
 - B.
 - C.
 - D.
20. "Choosing techniques to fit strategy" is a part of which step in developing a total compensation system?
- A.
 - B.
 - C.
 - D.

21. Examination of employee and union needs and the social and political context is a part of _____ step in formulating a total compensation strategy.
- A.
B.
C.
D.
22. Which of the following is the correct order of the steps in formulating a total compensation strategy?
- A.
B.
C.
D.
23. "To maintain good citizenship as a company" and "To make a fair profit on current operations" are examples of _____.
- A.
B.
C.
D.
24. Among unconventional benefits, U. S. workers in the Hudson's survey rated _____ as their most preferred.
- A.
B.
C.
D.
25. Which of the following statements regarding allowing employees choice in their pay mix is not true?
- A.
B.
C.
D.

26. Union preferences is a major factor in _____ of a total compensation strategy.
- A.
 - B.
 - C.
 - D.
27. In mapping a total compensation strategy, the question of how is compensation in the overall HR strategy is part of _____.
- A.
 - B.
 - C.
 - D.
28. The issue of how much and what forms of pay are our competitors using is part of which objective of total compensation strategy?
- A.
 - B.
 - C.
 - D.
29. The role non-HR managers play in making pay decisions is called _____.
- A.
 - B.
 - C.
 - D.
30. Issues of transparency, technology, and choice are examples of choices related to the _____ strategy choice of total compensation.
- A.
 - B.
 - C.
 - D.

31. Career growth, hierarchy and flexible design are examples of choices related to the _____ strategy choice of total compensation.
- A.
 - B.
 - C.
 - D.
32. A strategy map contains strategies about all but which of the following?
- A.
 - B.
 - C.
 - D.
33. Which of the following is not a test of whether a pay strategy is a source of competitive advantage?
- A.
 - B.
 - C.
 - D.
34. Which of the following is not one of the tests to determine if a pay strategy is a source of competitive advantage?
- A.
 - B.
 - C.
 - D.
35. Which of the following is the easiest test to pass?
- A.
 - B.
 - C.
 - D.

36. The alignment test
- A.
B.
C.
D.
37. Trying to measure an ROI for any compensation strategy implies that
- A.
B.
C.
D.
38. _____ is a "best practice".
- A.
B.
C.
D.
39. Research investigating high-performance workplaces found that performance-based pay _____ when combined with other high performance practices.
- A.
B.
C.
D.
40. When organization performance declines,
- A.
B.
C.
D.
41. Most organizations rely upon the market to determine how to pay their employees since compensation strategy is uncertain and complex.
- True False

42. When Microsoft replaced stock options with stock awards, they were asking employees to put more "skin in the game".
- True False
43. Labor market-based compensation practices in countries such as China, Germany and France, are likely to be less effective than in countries such as the U.S., Korea or Singapore.
- True False
44. Strategy refers to the fundamental direction that an organization chooses.
- True False
45. An organization's strategy is defined by the tradeoffs in choices of what to do and what not to do.
- True False
46. In the proper sequence of strategic decisions, HR strategies are made before business unit strategies.
- True False
47. Customer-focused pay strategies are very likely to use market-based pay.
- True False
48. Compensation systems focusing on competitor labor costs typically follow a cost-cutter strategy.
- True False
49. Although three separate compensation strategies may be identified, many companies use a combination of all three.
- True False
50. Internal alignment refers to how differently levels of skills and work are paid across different organizations.
- True False

51. How an organization positions its total compensation against competitors is part of external competitiveness strategic choices.
- True False
52. One of Whole Foods' employee contributions strategic compensation choices is to seek and engage employees who are going to help the company make money.
- True False
53. What business should a company be in and how does the company win are questions that are a part of mapping a total compensation strategy.
- True False
54. The fourth step of formulating a total compensation strategy is to reassess.
- True False
55. Useful compensation comparisons across countries may be done by focusing on hourly wages and productivity.
- True False
56. International compensation comparisons are challenging because retirement and health care programs, paid holidays and length of work week varies across countries.
- True False
57. Compensation strategy should reflect the organization's values.
- True False
58. A major challenge in the design of future pay systems is how to better satisfy individual needs and preferences.
- True False
59. The major challenge in the design of future pay systems is reducing the pay gap between top executives and low-level employees.
- True False

60. Unlimited compensation choices by employees would meet with disapproval from the U.S. Internal Revenue Service.
- True False
61. Offering employees choice in their compensation mix provides firms a distinct competitive advantage.
- True False
62. Since unions represent such a small fraction of the labor force, their influence on pay decisions is relatively minor.
- True False
63. Pay systems should fit well with other HR systems.
- True False
64. In a high-performance system, pay strategy plays a lead, as opposed to support role.
- True False
65. Work/life balance issues are part of competitiveness decisions in the pay model.
- True False
66. A compensation strategy map shows which strategy is best for an organization.
- True False
67. External competitiveness is one test of competitive advantage.
- True False
68. Benchmarking and copying best practices does not lead to competitive advantage.
- True False
69. Research on the effects of pay level showed that pay level affects financial performance while how employees are paid has no effect.
- True False

70. When an organization uses pay for performance and performance is improving, this is a virtuous circle.
- True False
71. What is strategy? How is it defined?
72. Define defenders and prospectors as referred to by Miles and Snow.
73. What are the different levels of strategy and the strategic choices in each level?

74. Compensation systems can be tailored to general business strategies. List and explain these strategies.
75. Explain AMO theory.
76. What are the different steps in formulating a total compensation strategy? List them in their order of occurrence.

77. List the different factors in mapping a total compensation strategy.
78. What is the first step in assessing total compensation implications?
79. What are the aspects of the alignment of pay strategies?

80.

Write short notes on Virtuous and Vicious Circles.

Chapter 02 Strategy: The Totality of Decisions **Key**

1.
(p. 34)

"Supporting promotional growth opportunities" is an example of which of the following?

- A.
- B.**
- C.
- D.

Difficulty: Easy
Milkovich - Chapter 02 #1

2.
(p. 35)

"Putting some skin in the game" refers to:

- A.
- B.
- C.**
- D.

Difficulty: Medium
Milkovich - Chapter 02 #2

3.
(p. 35)

A compensation system that pays employees such that "some skin is in the game" means that

- A.**
- B.
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #3

4.
(p. 31)

In which of the following country would it be most difficult for someone to move from one employer to another?

- A.
- B.
- C.**
- D.

Difficulty: Medium
Milkovich - Chapter 02 #4

5.
(p. 37)

At the corporate level, a strategic compensation perspective addresses the question:

- A.
- B.
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #5

6.
(p. 37)

What level of strategy is the question "how do we gain competitive advantage"?

- A.
- B.
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #6

7.
(p. 37)

The social, competitive and regulatory environment factors are most important for which type of strategy?

- A.
- B.
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #7

8.
(p. 38)

Which of the following relationships within a pay system is accurate?

- A.
- B.
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #8

9.
(p. 38)

A focus on competitor's costs is most closely associated with a _____ strategy.

- A.
- B.
- C.**
- D.

Difficulty: Medium
Milkovich - Chapter 02 #9

10.
(p. 38)

A compensation system using market-based pay is most likely to be part of a _____ strategy.

- A.**
- B.
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #10

11.
(p. 38)

Flexible-generic job descriptions would most likely be used with a _____ strategy.

- A.**
- B.
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #11

12.
(p. 38)

A compensation system focusing on system control and work specifications is most closely associated with _____ strategy.

- A.
- B.
- C.**
- D.

Difficulty: Easy
Milkovich - Chapter 02 #12

13.
(p. 42)

Whole Foods' policy of holding executive salaries to no more than 14 times average pay of full-time employees is an example of which strategic pay decision?

- A.
- B.
- C.
- D.**

Difficulty: Medium
Milkovich - Chapter 02 #13

14.
(p. 42)

Decisions regarding what forms compensation should be are part of _____.

- A.
- B.**
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #14

15.
(p. 42)

The choice to communicate and make open an organization's pay system to employees is an example of which strategic choice?

- A.
- B.
- C.
- D.**

Difficulty: Medium
Milkovich - Chapter 02 #15

16.
(p. 42)

The decision to base pay increases on individual or group performance is made within the _____ strategic compensation choices.

- A.
- B.
- C.**
- D.

Difficulty: Medium
Milkovich - Chapter 02 #16

17.
(p. 42)

A book listing the previous year's pay of all employees is part of Whole Foods "No-secrets" philosophy. This is an example of which strategic compensation choice?

- A.
- B.
- C.
- D.**

Difficulty: Medium
Milkovich - Chapter 02 #17

18.
(p. 42)

Whole Foods' decision to seek and engage employees who are going to help the company make money is an example of which strategic pay decisions?

- A.**
- B.
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #18

19.
(p. 43)

The second step of developing a total compensation strategy is to:

- A.
- B.
- C.
- D.**

Difficulty: Medium
Milkovich - Chapter 02 #19

20.
(p. 43)

"Choosing techniques to fit strategy" is a part of which step in developing a total compensation system?

- A.
- B.**
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #20

21.
(p. 43)

Examination of employee and union needs and the social and political context is a part of _____ step in formulating a total compensation strategy.

- A.
- B.
- C.
- D.

Difficulty: Easy
Milkovich - Chapter 02 #21

22.
(p. 43)

Which of the following is the correct order of the steps in formulating a total compensation strategy?

- A.
- B.
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #22

23.
(p. 45)

"To maintain good citizenship as a company" and "To make a fair profit on current operations" are examples of _____.

- A.
- B.
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #23

24.
(p. 46)

Among unconventional benefits, U. S. workers in the Hudson's survey rated _____ as their most preferred.

- A.
- B.
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #24

25.
(p. 46-47)

Which of the following statements regarding allowing employees choice in their pay mix is not true?

- A.
- B.**
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #25

26.
(p. 47)

Union preferences is a major factor in _____ of a total compensation strategy.

- A.
- B.
- C.**
- D.

Difficulty: Medium
Milkovich - Chapter 02 #26

27.
(p. 49)

In mapping a total compensation strategy, the question of how is compensation in the overall HR strategy is part of _____.

- A.**
- B.
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #27

28.
(p. 49)

The issue of how much and what forms of pay are our competitors using is part of which objective of total compensation strategy?

- A.
- B.
- C.**
- D.

Difficulty: Easy
Milkovich - Chapter 02 #28

29.
(p. 49)

The role non-HR managers play in making pay decisions is called _____.

- A.**
- B.
- C.
- D.

Difficulty: Difficult
Milkovich - Chapter 02 #29

30.
(p. 49)

Issues of transparency, technology, and choice are examples of choices related to the _____ strategy choice of total compensation.

- A.
- B.**
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #30

31.
(p. 49)

Career growth, hierarchy and flexible design are examples of choices related to the _____ strategy choice of total compensation.

- A.
- B.**
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #31

32.
(p. 49)

A strategy map contains strategies about all but which of the following?

- A.
- B.
- C.**
- D.

Difficulty: Medium
Milkovich - Chapter 02 #32

33.
(p. 50)

Which of the following is not a test of whether a pay strategy is a source of competitive advantage?

- A.
- B.**
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #33

34.
(p. 50-52)

Which of the following is not one of the tests to determine if a pay strategy is a source of competitive advantage?

- A.
- B.
- C.
- D.**

Difficulty: Medium
Milkovich - Chapter 02 #34

35.
(p. 50)

Which of the following is the easiest test to pass?

- A.**
- B.
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #35

36.
(p. 50)

The alignment test

- A.
- B.
- C.**
- D.

Difficulty: Medium
Milkovich - Chapter 02 #36

37.
(p. 52)

Trying to measure an ROI for any compensation strategy implies that

- A.
- B.**
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #37

38.
(p. 53)

_____ is a "best practice".

- A.
- B.
- C.**
- D.

Difficulty: Medium
Milkovich - Chapter 02 #38

39.
(p. 54-55)

Research investigating high-performance workplaces found that performance-based pay _____ when combined with other high performance practices.

- A.**
- B.
- C.
- D.

Difficulty: Medium
Milkovich - Chapter 02 #39

40.
(p. 55)

When organization performance declines,

- A.
- B.**
- C.
- D.

Difficulty: Easy
Milkovich - Chapter 02 #40

41.
(p. 33)

Most organizations rely upon the market to determine how to pay their employees since compensation strategy is uncertain and complex.

FALSE

Difficulty: Easy
Milkovich - Chapter 02 #41

42.
(p. 35)
- When Microsoft replaced stock options with stock awards, they were asking employees to put more "skin in the game".
- FALSE**
- Difficulty: Difficult
Milkovich - Chapter 02 #42*
43.
(p. 36)
- Labor market-based compensation practices in countries such as China, Germany and France, are likely to be less effective than in countries such as the U.S., Korea or Singapore.
- TRUE**
- Difficulty: Medium
Milkovich - Chapter 02 #43*
44.
(p. 36)
- Strategy refers to the fundamental direction that an organization chooses.
- TRUE**
- Difficulty: Easy
Milkovich - Chapter 02 #44*
45.
(p. 36)
- An organization's strategy is defined by the tradeoffs in choices of what to do and what not to do.
- TRUE**
- Difficulty: Easy
Milkovich - Chapter 02 #45*
46.
(p. 37)
- In the proper sequence of strategic decisions, HR strategies are made before business unit strategies.
- FALSE**
- Difficulty: Medium
Milkovich - Chapter 02 #46*
47.
(p. 38)
- Customer-focused pay strategies are very likely to use market-based pay.
- FALSE**
- Difficulty: Medium
Milkovich - Chapter 02 #47*
48.
(p. 38)
- Compensation systems focusing on competitor labor costs typically follow a cost-cutter strategy.
- TRUE**
- Difficulty: Easy*

49.
(p. 39)

Although three separate compensation strategies may be identified, many companies use a combination of all three.

TRUE

Difficulty: Easy
Milkovich - Chapter 02 #49

50.
(p. 42)

Internal alignment refers to how differently levels of skills and work are paid across different organizations.

FALSE

Difficulty: Medium
Milkovich - Chapter 02 #50

51.
(p. 42)

How an organization positions its total compensation against competitors is part of external competitiveness strategic choices.

TRUE

Difficulty: Easy
Milkovich - Chapter 02 #51

52.
(p. 42)

One of Whole Foods' employee contributions strategic compensation choices is to seek and engage employees who are going to help the company make money.

FALSE

Difficulty: Medium
Milkovich - Chapter 02 #52

53.
(p. 44)

What business should a company be in and how does the company win are questions that are a part of mapping a total compensation strategy.

FALSE

Difficulty: Medium
Milkovich - Chapter 02 #53

54.
(p. 43)

The fourth step of formulating a total compensation strategy is to reassess.

TRUE

Difficulty: Easy
Milkovich - Chapter 02 #54

55.
(p. 44)

Useful compensation comparisons across countries may be done by focusing on hourly wages and productivity.

FALSE

*Difficulty: Medium
Milkovich - Chapter 02 #55*

56.
(p. 44)

International compensation comparisons are challenging because retirement and health care programs, paid holidays and length of work week varies across countries.

TRUE

*Difficulty: Easy
Milkovich - Chapter 02 #56*

57.
(p. 45)

Compensation strategy should reflect the organization's values.

TRUE

*Difficulty: Easy
Milkovich - Chapter 02 #57*

58.
(p. 46)

A major challenge in the design of future pay systems is how to better satisfy individual needs and preferences.

TRUE

*Difficulty: Easy
Milkovich - Chapter 02 #58*

59.
(p. 46)

The major challenge in the design of future pay systems is reducing the pay gap between top executives and low-level employees.

FALSE

*Difficulty: Easy
Milkovich - Chapter 02 #59*

60.
(p. 46-47)

Unlimited compensation choices by employees would meet with disapproval from the U.S. Internal Revenue Service.

TRUE

*Difficulty: Easy
Milkovich - Chapter 02 #60*

61.
(p. 46)
- Offering employees choice in their compensation mix provides firms a distinct competitive advantage.
- FALSE**
- Difficulty: Difficult
Milkovich - Chapter 02 #61*
62.
(p. 47)
- Since unions represent such a small fraction of the labor force, their influence on pay decisions is relatively minor.
- FALSE**
- Difficulty: Medium
Milkovich - Chapter 02 #62*
63.
(p. 44)
- Pay systems should fit well with other HR systems.
- TRUE**
- Difficulty: Easy
Milkovich - Chapter 02 #63*
64.
(p. 44)
- In a high-performance system, pay strategy plays a lead, as opposed to support role.
- FALSE**
- Difficulty: Difficult
Milkovich - Chapter 02 #64*
65.
(p. 49)
- Work/life balance issues are part of competitiveness decisions in the pay model.
- TRUE**
- Difficulty: Medium
Milkovich - Chapter 02 #65*
66.
(p. 49)
- A compensation strategy map shows which strategy is best for an organization.
- FALSE**
- Difficulty: Easy
Milkovich - Chapter 02 #66*
67.
(p. 50)
- External competitiveness is one test of competitive advantage.
- FALSE**
- Difficulty: Medium
Milkovich - Chapter 02 #67*

68.
(p. 50)

Benchmarking and copying best practices does not lead to competitive advantage.

TRUE

*Difficulty: Medium
Milkovich - Chapter 02 #68*

69.
(p. 54)

Research on the effects of pay level showed that pay level affects financial performance while how employees are paid has no effect.

FALSE

*Difficulty: Medium
Milkovich - Chapter 02 #69*

70.
(p. 54)

When an organization uses pay for performance and performance is improving, this is a virtuous circle.

TRUE

*Difficulty: Easy
Milkovich - Chapter 02 #70*

71.
(p. 37)

What is strategy? How is it defined?

Strategy refers to the fundamental directions that an organization chooses. An organization defines its strategy through the tradeoffs it makes in choosing what to do and what not to do.

*Difficulty: Easy
Milkovich - Chapter 02 #71*

72.
(p. 39)

Define defenders and prospectors as referred to by Miles and Snow.

According to Miles and Snow, defenders are those firms that operate in stable markets and compete on cost, and prospectors are firms that are more focused on innovation and new markets.

*Difficulty: Easy
Milkovich - Chapter 02 #72*

73.
(p. 37)

What are the different levels of strategy and the strategic choices in each level?

There are three levels of strategy, (i) the corporate level, (ii) the business unit level, and (iii) the functional level. At the corporate level, the fundamental strategic choice is: "What business should we be in?" At the business unit level, the choice shifts to: "How do we gain and sustain competitive advantage in this business?" At the function level the strategic choice is: "How should total compensation help this business gain and sustain competitive advantage?"

Difficulty: Medium
Milkovich - Chapter 02 #73

74.
(p. 38)

Compensation systems can be tailored to general business strategies. List and explain these strategies.

Compensation systems can be tailored to three general business strategies:

- i. The innovator stresses new products and short response time to market trends. A supporting compensation approach places less emphasis on evaluating skills and jobs and more emphasis on incentives designed to encourage innovations.
- ii. The cost cutter's efficiency-focused strategy stresses doing more with less by minimizing costs, encouraging productivity increases, and specifying in greater detail exactly how jobs should be performed.
- iii. The customer-focused business strategy stresses delighting customers and bases employee pay on how well they do this.

Difficulty: Easy
Milkovich - Chapter 02 #74

75.
(p. 40)

Explain AMO theory.

Boxall and Purcell find an increasingly common "very basic theory of performance" being used, which they refer to as "AMO theory":

$$P = f(A, M, O)$$

"P" is performance, which is specified to be a function (f) of three factors: "A" is ability, "M" is motivation, and "O" is opportunity.

In other words, HR systems will be most effective when roles are designed to allow employees to be involved in decisions and have an opportunity to make an impact, when employee ability is developed through selective hiring and training and development, and when the compensation system motivates employees to act on their abilities and take advantage of the opportunity to make a difference.

Difficulty: Medium
Milkovich - Chapter 02 #75

76.
(p. 43)

What are the different steps in formulating a total compensation strategy? List them in their order of occurrence.

There are four steps in formulating a total compensation strategy. They are:

- i. Assess Total Compensation Implications
- ii. Map a Total Compensation Strategy
- iii. Implement Strategy
- iv. Reassess

Difficulty: Easy
Milkovich - Chapter 02 #76

77.
(p. 43)

List the different factors in mapping a total compensation strategy.

Factors in mapping a total compensation strategy include objective, alignment, competitiveness, contributions and, management.

Difficulty: Easy
Milkovich - Chapter 02 #77

78.
(p. 44)

What is the first step in assessing total compensation implications?

The first step in assessing total compensation implications includes an understanding of the specific industry in which the organization operates and how the organization plans to compete in that industry. This corresponds with the strategic choices in the corporate and the business unit levels: What business should we be in, and how do we win in that business?

Difficulty: Easy
Milkovich - Chapter 02 #78

79.
(p. 50)

What are the aspects of the alignment of pay strategies?

Alignment of the pay strategy includes three aspects:

- i. align with the business strategy,
- ii. align externally with the economic and sociopolitical conditions, and
- iii. align internally within the overall HR system.

Difficulty: Easy
Milkovich - Chapter 02 #79

Write short notes on Virtuous and Vicious Circles.

Virtuous Circle - Thinking of pay as part of a circle suggests that performance-based pay works best when there is success to share. An organization whose profits or market share is increasing is able to pay larger bonuses and stock awards which fairly improve employee attitudes and work behaviors, which in turn improves their performance. The circle gains upward momentum. Employees receive returns that compensate for the risks they take. And they behave like owners, since they are sharing in the organization's success.

Vicious Circle - Circles can also gain momentum going downward to become a vicious circle. When organization performance declines, performance-based pay plans do not pay off; there are no bonuses, and the value of stock declines—with potentially negative effects on organization performance. Declining organization performance increases the risks facing employees—risks of still smaller bonuses, demotions, wage cuts, and even layoffs. Unless the increased risks are offset by larger returns, the risk-return imbalance will reinforce declining employee attitudes and speed the downward spiral.

Chapter 02 Strategy: The Totality of Decisions **Summary**