

***Human Resource Management, 15e (Dessler)***  
**Chapter 12 Pay for Performance and Financial Incentives**

1) Frederick Taylor referred to the tendency of employees to work at the slowest pace possible and to produce at the minimum acceptable level as \_\_\_\_\_.

- A) social loafing
- B) systematic soldiering
- C) work shifting
- D) group logrolling

Answer: B

Explanation: B) Frederick Taylor popularized using financial incentives in the late 1800s. As a supervisory employee of the Midvale Steel Company, Taylor was concerned with what he called "systematic soldiering"—the tendency of employees to work at the slowest pace possible and to produce at the minimum acceptable level.

Difficulty: Easy

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

2) Which of the following terms refers to financial rewards paid to workers whose production exceeds some predetermined standard?

- A) indirect financial payments
- B) merit payments
- C) hardship allowances
- D) financial incentives

Answer: D

Explanation: D) Financial incentives are financial rewards paid to workers whose production exceeds some predetermined standard. Indirect financial payments are a type of employee compensation that includes health benefits.

Difficulty: Easy

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

3) A management approach based on improving work methods through observation and analysis is known as \_\_\_\_\_.

- A) strategic management
- B) scientific management
- C) management by objectives
- D) performance management

Answer: B

Explanation: B) Frederick Taylor spearheaded the scientific management movement, a management approach that emphasized improving work methods through observation and analysis. Taylor also popularized the use of incentive pay as a way to reward employees who produced over standard.

Difficulty: Easy

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

4) Who proposed a two-factor theory that explains how motivator factors relate to satisfaction and hygiene factors relate to dissatisfaction?

- A) Frederick Taylor
- B) Abraham Maslow
- C) Frederick Herzberg
- D) David McClelland

Answer: C

Explanation: C) Herzberg says the factors ("hygienes") that satisfy lower-level needs are different from those ("motivators") that satisfy or partially satisfy higher-level needs.

Difficulty: Easy

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

5) Which of the following is a true statement about Herzberg's Hygiene-Motivator theory?

- A) Highly motivated workers rely equally on lower-level and higher-level needs.
- B) Assigning workers to teams can eliminate job-associated stress and frustration.
- C) Providing employees with feedback and challenge satisfies their lower-level needs.
- D) Managers can create a self-motivated workforce by providing feedback and recognition.

Answer: D

Explanation: D) Instead of relying on lower-level hygienes, says Herzberg, managers interested in creating a self-motivated workforce should emphasize "job content" or motivator factors. Managers do this by enriching workers' jobs so that the jobs are more challenging and by providing feedback and recognition.

Difficulty: Hard

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

6) According to Herzberg's Hygiene-Motivator theory, which of the following factors will most likely satisfy employees' higher-level needs?

- A) base salary
- B) achievement
- C) incentive pay
- D) co-worker relationships

Answer: B

Explanation: B) Feedback, recognition, challenging work, and achievement help satisfy a worker's higher-level needs. Working conditions, salary, and incentives address a worker's lower-level needs.

Difficulty: Moderate

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

7) Which of the following found that extrinsic rewards could detract from an employee's intrinsic motivation?

- A) Frederick Taylor
- B) Frederick Herzberg
- C) David McClelland
- D) Edward Deci

Answer: D

Explanation: D) Psychologist Edward Deci's work highlights a potential downside to relying too heavily on extrinsic rewards: They may backfire. Deci found that extrinsic rewards could at times actually detract from the person's intrinsic motivation. Herzberg's work indicates that it is more effective to satisfy an employee's higher-level rather than lower-level needs.

Difficulty: Moderate

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

8) Rebecca's manager wants to acknowledge her outstanding service record for the past quarter. The manager decides to give Rebecca a bonus of \$1000 as a reward. According to Edward Deci, which of the following will most likely occur as a result?

- A) The bonus will encourage Rebecca to work harder than before.
- B) The bonus will detract from Rebecca's inner desire to work hard.
- C) Rebecca's bonus will satisfy her higher-level needs and increase her motivation.
- D) Rebecca will feel inadequate because the bonus fails to address hygiene factors.

Answer: B

Explanation: B) Psychologist Edward Deci's work highlights a potential downside to relying too heavily on extrinsic rewards: They may backfire. Deci found that extrinsic rewards could at times actually detract from the person's intrinsic motivation. Herzberg's work indicates that it is more effective to satisfy an employee's higher-level rather than lower-level needs.

Difficulty: Hard

Chapter: 12

Objective: 1

AACSB: Application of Knowledge

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

9) According to Victor Vroom, expectancy could also be referred to as the \_\_\_\_\_.

- A) probability that effort will lead to success
- B) relationship between performance and reward
- C) perceived value a person attaches to a reward
- D) employer's strategy for motivating employees

Answer: A

Explanation: A) Vroom says a person's motivation to exert effort depends on the person's expectancy that his or her effort will lead to performance; instrumentality, or the perceived connection between successful performance and actually obtaining the rewards; and valence, which represents the perceived value the person attaches to the reward.

Difficulty: Moderate

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

10) The perceived relationship between successful performance and obtaining the reward is referred to by Vroom as \_\_\_\_\_.

- A) instrumentality
- B) valence
- C) expectancy
- D) optimism

Answer: A

Explanation: A) Instrumentality is the perceived connection (if any) between successful performance and actually obtaining the rewards.

Difficulty: Easy

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

11) In Vroom's theory of motivation, motivation is equal to  $E * I * V$ , where E represents \_\_\_\_\_.

- A) existence
- B) expectancy
- C) esteem
- D) energy

Answer: B

Explanation: B) In Vroom's theory, motivation is thus a product of three things:

Motivation =  $(E \times I \times V)$ , where, of course, E represents expectancy, I instrumentality, and V valence. If E or I or V is zero or inconsequential, there will be no motivation.

Difficulty: Moderate

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

12) In Vroom's theory of motivation, motivation is equal to  $E * I * V$ , where I represents \_\_\_\_\_.

- A) intrinsic needs
- B) internalization
- C) instrumentality
- D) incentives

Answer: C

Explanation: C) In Vroom's theory, motivation is thus a product of three things:

Motivation =  $(E \times I \times V)$ , where, of course, E represents expectancy, I instrumentality, and V valence. If E or I or V is zero or inconsequential, there will be no motivation.

Difficulty: Moderate

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

13) In Vroom's theory of motivation, which of the following terms refers to the perceived value a person attaches to a reward?

- A) valence
- B) instrumentality
- C) expectancy
- D) variable pay

Answer: A

Explanation: A) Valence represents the perceived value the person attaches to the reward.

Difficulty: Moderate

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

14) According to Vroom's theory, when managers design incentive plans they should do all of the following EXCEPT \_\_\_\_\_.

- A) focus on behavior modification methods
- B) make incentive plans easy to understand
- C) provide training and support to employees
- D) boost the confidence level of employees

Answer: A

Explanation: A) Vroom's theory has implications for how managers design incentive plans. Managers must ensure that their employees have the skills to do the job, and believe they can do the job. Thus training, job descriptions, and confidence building and support are important in using incentives. Managers should also create easy to understand incentive plans. Skinner addressed behavior modification methods rather than Vroom.

Difficulty: Hard

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

15) Behavior modification is based upon the principles of rewards and punishments advanced by \_\_\_\_\_.

- A) Frederick Taylor
- B) Frederick Herzberg
- C) B.F. Skinner
- D) Edward Deci

Answer: C

Explanation: C) Psychologist B. F. Skinner's findings provide the foundation for much of what we know about incentives. Managers apply Skinner's principles by using behavior modification.

Difficulty: Easy

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

16) Which of the following terms refers to changing behavior through rewards or punishments that are contingent on performance?

- A) behavior modification
- B) personal development
- C) instrumentality
- D) internal motivation

Answer: A

Explanation: A) Managers apply Skinner's principles by using behavior modification. Behavior modification means changing behavior through rewards or punishments that are contingent on performance.

Difficulty: Easy

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

17) Which of the following is NOT a basic tenet of behavior modification?

- A) Behavior that leads to rewards tends to be repeated.
- B) Properly scheduled rewards can be used to encourage some behaviors.
- C) Properly scheduled punishments can be used to minimize some behaviors.
- D) Employees must understand the link between rewards, punishments, and behavior.

Answer: D

Explanation: D) For managers, behavior modification boils down to following two main principles: (1) That behavior that appears to lead to a positive consequence (reward) tends to be repeated, while behavior that appears to lead to a negative consequence (punishment) tends not to be repeated; and (2) that, therefore, managers can get someone to change his or her behavior by providing the properly scheduled rewards (or punishment).

Difficulty: Hard

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

18) Which of the following terms refers to an incentive plan that ties a group's pay to the firm's profitability?

- A) piecework
- B) variable pay
- C) pay-for-performance
- D) merit pay

Answer: B

Explanation: B) Traditionally, all incentive plans are pay-for-performance plans. They all tie employees' pay to the employees' performance.

Difficulty: Easy

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

19) Under the Fair Labor Standards Act, which of the following would NOT be included in overtime pay computations?

- A) bonus for new hires
- B) Christmas bonus
- C) efficiency bonus
- D) union contract bonus

Answer: B

Explanation: B) Christmas bonuses are not based on hours worked and may be excluded from overtime pay calculations. Other types of incentive pay must be included according to the Fair Labor Standards Act (FLSA). Bonuses to include in overtime pay computations include those promised to newly hired employees, those provided for in union contracts, those announced to induce employees to work more efficiently, and those for attendance.

Difficulty: Moderate

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

20) Robert Katz popularized the use of financial incentives for workers whose production exceeds some predetermined standard.

Answer: FALSE

Explanation: Frederick Taylor popularized the use of financial incentives in the late 1800s.

Difficulty: Easy

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

21) Most firms link employees' pay to performance because financial incentives are extremely successful at motivating employees to perform above required standards.

Answer: FALSE

Explanation: Studies suggest that employees don't see a strong connection between pay and performance, and their performance is not particularly influenced by the company's incentive plan. About 83% of companies with such programs say their programs are only somewhat successful or not successful at all.

Difficulty: Moderate

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

22) According to Herzberg's theory, a manager would be able to motivate an employee with challenging tasks.

Answer: TRUE

Explanation: Herzberg's theory states that the best way to motivate someone is to organize the job so that doing it provides the challenge and recognition needed to help satisfy "higher-level" needs for things like accomplishment and recognition.

Difficulty: Moderate

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

23) In Herzberg's Hygiene-Motivator theory, working conditions are motivator factors, and challenging assignments are hygiene factors.

Answer: FALSE

Explanation: Hygiene factors are factors outside the job itself, such as working conditions, salary, and incentive pay. Motivator factors include challenging tasks, feedback, and recognition.

Difficulty: Moderate

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

24) Herzberg's Hygiene-Motivator theory is based on a needs theory.

Answer: TRUE

Explanation: Frederick Herzberg said the best way to motivate someone is to organize the job so that doing it provides the feedback and challenge that helps satisfy the person's "higher-level" needs for things like accomplishment and recognition. Satisfying "lower-level" needs for things like better pay and working conditions just keeps the person from becoming dissatisfied.

Herzberg's theory is based on a theory of needs.

Difficulty: Moderate

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

25) According to Herzberg's motivation theory, good working conditions will prevent dissatisfaction but will not lead to feelings of satisfaction.

Answer: TRUE

Explanation: Frederick Herzberg said the best way to motivate someone is to organize the job so that doing it provides the feedback and challenge that helps satisfy the person's "higher-level" needs for things like accomplishment and recognition. Satisfying "lower-level" needs for things like better pay and working conditions just keeps the person from becoming dissatisfied.

Difficulty: Moderate

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

26) The work of Edward Deci suggests that managers should primarily rely on extrinsic rewards to motivate employees.

Answer: FALSE

Explanation: Psychologist Edward Deci's work highlights another potential downside to relying too heavily on extrinsic rewards: They may backfire. Deci found that extrinsic rewards could at times actually detract from the person's intrinsic motivation.

Difficulty: Moderate

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

27) Vroom's expectancy theory observes that people will not pursue rewards that they find unattractive or where their chances of success are very low.

Answer: TRUE

Explanation: An important motivational fact is that, in general, people won't pursue rewards they find unattractive, or where the odds of success are very low. Psychologist Victor Vroom's expectancy motivation theory echoes these common sense observations.

Difficulty: Moderate

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

28) According to Vroom's theory, if expectancy, instrumentality, or valence is equal to zero, there will be no employee motivation.

Answer: TRUE

Explanation: In Vroom's theory, motivation is thus a product of three things:

Motivation =  $(E \times I \times V)$ , where E represents expectancy, I instrumentality, and V valence.

If E or I or V is zero or inconsequential, there will be no motivation.

Difficulty: Moderate

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

29) Behavior modification is based on the idea that people will repeat behavior for which they are punished.

Answer: FALSE

Explanation: According to Skinner's theory, behavior that appears to lead to a positive consequence (reward) tends to be repeated, while behavior that appears to lead to a negative consequence (punishment) tends not to be repeated.

Difficulty: Easy

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

30) Behavior modification principles can be useful to managers who seek to change employee behavior through rewards or punishments linked to performance.

Answer: TRUE

Explanation: Behavior modification means changing behavior through rewards or punishments that are contingent on performance. Managers apply Skinner's principles of behavior modification when overseeing employees.

Difficulty: Easy

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

31) If an employee earns an incentive in the form of a prize or cash award, the value of the award is not included when calculating the employee's overtime pay.

Answer: FALSE

Explanation: Under the Fair Labor Standards Act, if the performance-based pay is in the form of a prize or cash award, the employer generally must include the value of that award when calculating the worker's overtime pay for that pay period.

Difficulty: Moderate

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

32) Briefly describe Vroom's theory and its three components. How can managers use Vroom's theory as they develop effective incentive plans?

Answer: Vroom states that a person's motivation to exert some level of effort or specific behavior is a function of three things: valence, instrumentality, and expectancy. Valence is the perceived value the person attaches to the reward. Instrumentality is the perceived relationship between successful performance and obtaining the reward. Expectancy is the probability that performance of the behavior or exertion of the effort will result in achieving the desired reward. Motivation is equal to  $E * I * V$ . Victor Vroom would say there should be a clear link between effort and performance, and between performance and reward, and that the reward must be attractive to the employee.

Difficulty: Hard

Chapter: 12

Objective: 1

AACSB: Analytical Thinking

Learning Outcome: 12.1 Explain how you would apply four motivation theories in formulating an incentive plan.

33) What type of pay plan is being used when workers are paid a sum for each unit they produce?

A) competency-based pay

B) job-based pay

C) piecework

D) bonus

Answer: C

Explanation: C) Piecework is the oldest and still most popular individual incentive plan. Here you pay the worker a sum (called a piece rate) for each unit he or she produces.

Difficulty: Easy

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

34) Which of the following terms refers to an incentive plan in which a person is paid a sum for each item he or she makes or sells, with a strict proportionality between results and rewards?

- A) variable pay
- B) straight piecework
- C) straight hourly pay
- D) standard hour plan

Answer: B

Explanation: B) Piecework generally implies straight piecework, which entails a strict proportionality between results and rewards regardless of output. However, some piecework plans allow for sharing productivity gains between employer and worker.

Difficulty: Easy

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

35) In which of the following do workers receive a basic hourly rate plus a premium equal to the percent by which their performance exceeds the standard?

- A) variable pay
- B) straight piecework
- C) standard hour plan
- D) standard piecework

Answer: C

Explanation: C) The standard hour plan is a plan by which a worker is paid a basic hourly rate but is paid an extra percentage of his or her rate for production exceeding the standard per hour or per day. It is similar to piecework payment but based on a percent premium.

Difficulty: Easy

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

36) All of the following are disadvantages associated with piecework plans EXCEPT that workers \_\_\_\_\_.

- A) resist attempts to modify production standards
- B) focus on production quantity instead of quality
- C) view the plans as unfair and complicated
- D) dislike new technology or processes

Answer: C

Explanation: C) Piecework plans are understandable, appear equitable in principle, and can be powerful incentives, since rewards are proportionate to performance. However, workers on piecework may resist attempts to revise production standards, downplay quality, or resist switching from job to job. Attempts to introduce new technology or processes may also trigger resistance.

Difficulty: Hard

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

37) Which of the following is the primary advantage of piecework plans?

- A) powerful incentive to workers
- B) workers earn efficiency bonuses
- C) firms save on overtime wages
- D) entices independent contractors

Answer: A

Explanation: A) Piecework plans are understandable, appear equitable in principle, and can be powerful incentives, since rewards are proportionate to performance.

Difficulty: Hard

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

38) Which of the following terms refers to any salary increase the firm awards to an individual employee based on his or her individual performance?

- A) competency-based pay
- B) variable pay
- C) merit pay
- D) base pay

Answer: C

Explanation: C) Merit pay is any salary increase the firm awards to an individual employee based on his or her individual performance. It is different from a bonus in that it usually becomes part of the employee's base salary, whereas a bonus is a one-time payment.

Difficulty: Easy

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

39) How does merit pay differ from a bonus?

- A) Merit pay becomes part of an employee's base pay, but a bonus does not.
- B) A bonus becomes part of an employee's base pay, but merit pay does not.
- C) Merit pay is linked to individual performance, while a bonus is linked to profits.
- D) A bonus is linked to individual performance, while merit pay is linked to profits.

Answer: A

Explanation: A) Merit pay is any salary increase the firm awards to an individual employee based on his or her individual performance. It is different from a bonus in that it usually becomes part of the employee's base salary, whereas a bonus is a one-time payment.

Difficulty: Hard

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

40) Studies indicate that in order for merit pay to be most effective, it should be linked to \_\_\_\_\_.

- A) company profits
- B) annual base salary
- C) employee overtime
- D) employee performance

Answer: D

Explanation: D) Merit raises are more likely to be effective if they are linked to performance, which involves establishing effective appraisal procedures. Merit pay linked to company profits or employees' salaries, overtime, or awards are less likely to be effective incentives.

Difficulty: Moderate

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

41) Ryobi is a large, international power tool manufacturer that develops affordable, high-quality products, such as drills, circular saws, and routers, for both homeowners and craftspeople. As the company continues to grow, its top executives want to ensure that employees are appropriately paid for their performance and that financial incentives are both fair and effective. Currently, the firm provides merit raises based on performance appraisals; however, executives are considering changing the current incentive plan.

Which of the following, if true, supports the argument that Ryobi should eliminate all merit raises?

- A) Performance appraisals at Ryobi occur annually, and standards vary from manager to manager.
- B) Ryobi employees have the option of accepting lump-sum raises or traditional merit raises.
- C) Ryobi recently began using an enterprise incentive management system to automate compensation.
- D) The commission percentage for Ryobi salespeople is based on the ability to meet monthly quotas.

Answer: A

Explanation: A) In order for merit raises to be effective, performance appraisals need to be consistent and fair. The distribution method of a merit raise, monthly sales quotas, and enterprise management systems are less relevant to the decision.

Difficulty: Hard

Chapter: 12

Objective: 2

AACSB: Application of Knowledge

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

42) Ryobi is a large, international power tool manufacturer that develops affordable, high-quality products, such as drills, circular saws, and routers, for both homeowners and craftspeople. As the company continues to grow, its top executives want to ensure that employees are appropriately paid for their performance and that financial incentives are both fair and effective. Currently, the firm provides merit raises based on performance appraisals; however, executives are considering changing the current incentive plan.

Which of the following, if true, undermines the argument that Ryobi should discontinue all merit raises?

- A) Ryobi employees have expressed that they would prefer stock options to merit raises.
- B) Ryobi managers have not received significant training about conducting performance appraisals.
- C) Ryobi managers have noticed significant productivity improvements among employees who receive merit raises.
- D) Ryobi's top executives receive a combination of base salary and stock options to encourage them to focus on the firm's strategic goals.

Answer: C

Explanation: C) If Ryobi managers have noticed productivity improvements among employees who receive merit raises, then the system is most likely effective and should not be discontinued. The decision to discontinue merit raises is supported by employees who prefer stock options and managers who lack performance appraisal training. Executive pay is less relevant to the decision.

Difficulty: Hard

Chapter: 12

Objective: 2

AACSB: Application of Knowledge

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

43) Ryobi is a large, international power tool manufacturer that develops affordable, high-quality products, such as drills, circular saws, and routers, for both homeowners and craftspeople. As the company continues to grow, its top executives want to ensure that employees are appropriately paid for their performance and that financial incentives are both fair and effective. Currently, the firm provides merit raises based on performance appraisals; however, executives are considering changing the current incentive plan.

Which of the following questions is most relevant to the decision by Ryobi executives to discontinue all merit raises?

- A) What are the guidelines for implementing a gainsharing plan?
- B) What types of merit raises are effective for high-performing managers?
- C) What organization-wide incentive plans are used by other manufacturing firms?
- D) What is the connection between merit pay increases and employee productivity?

Answer: D

Explanation: D) In order for merit raises to be effective, there should be a clear and consistent connection between productivity and merit pay. There are not different types of merit raises.

Difficulty: Hard

Chapter: 12

Objective: 2

AACSB: Application of Knowledge

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

44) \_\_\_\_\_ is a program where informal manager-employee exchanges such as praise, approval, or expressions of appreciation are given for a job well done.

- A) Merit pay
- B) A social recognition program
- C) Performance feedback
- D) Variable pay

Answer: B

Explanation: B) Social recognition programs are programs where informal manager-employee exchanges such as praise, approval, or expressions of appreciation are given for a job well done.

Difficulty: Moderate

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

45) Craig is a line manager at a paper supply company. All of the following are methods that Craig should most likely implement to motivate his subordinates EXCEPT \_\_\_\_\_.

- A) recognizing an employee's contribution
- B) encouraging workers to earn overtime pay
- C) gaining agreement on goals with employees
- D) using positive reinforcement on a daily basis

Answer: B

Explanation: B) The best option for motivating employees is to make sure the employee has a doable goal and that he or she agrees with that. Next, recognizing an employee's contribution is a powerful motivation tool. Finally, managers can use social recognition as daily positive reinforcement. Encouraging overtime is less likely to motivate employees.

Difficulty: Hard

Chapter: 12

Objective: 2

AACSB: Application of Knowledge

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

46) Which of the following was shown by the Harvard Business School to have the greatest impact on employee engagement?

- A) feedback
- B) job design
- C) responsibility
- D) challenging work

Answer: B

Explanation: B) A study by Harvard Business School researchers concluded that job design is a primary driver of employee engagement. A study by Sibson consulting concluded that job responsibility and feedback from a job were the fifth and seventh most important drivers of employee engagement. A study by Towers Watson concluded that challenging work ranked as the seventh most important driver for attracting employees.

Difficulty: Moderate

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

47) The complicated nature of piecework makes it an unpopular individual incentive plan among employers.

Answer: FALSE

Explanation: Piecework is the oldest and still most popular individual incentive plan. The straightforward plan requires an employer to pay the worker a sum (called a piece rate) for each unit he or she produces.

Difficulty: Moderate

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

48) The standard hour plan is like the piece rate plan except instead of getting a rate per piece, the employee gets a premium equal to the percent by which his or her performance exceeds the standard.

Answer: TRUE

Explanation: The standard hour plan is a plan by which a worker is paid a basic hourly rate but is paid an extra percentage of his or her rate for production exceeding the standard per hour or per day. It is similar to piecework payment but based on a percent premium.

Difficulty: Easy

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

49) With a standard hour plan, employers do not need to recalculate piece rates when changes are made to the hourly pay rate.

Answer: TRUE

Explanation: Some firms find that expressing the incentive in percentages reduces the workers' tendency to link their production standard to pay (thus making the standard easier to change). It also eliminates the need to recalculate piece rates whenever hourly wage rates are changed.

Difficulty: Moderate

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

50) Employers are shifting away from piecework in many industries due to the incentive plan's poor reputation.

Answer: TRUE

Explanation: In the garment industry and other industries, the term piecework has a dreadful reputation because the hourly pay didn't always fulfill the Wage and Hour Act's minimum wage requirements. For these and other reasons, more employers are moving to other plans.

Difficulty: Moderate

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

51) All merit raises become part of an employee's base salary.

Answer: TRUE

Explanation: A merit raise is any salary increase the firm awards to an individual employee based on his or her individual performance. It usually becomes part of the employee's base salary.

Difficulty: Moderate

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

52) According to the FLSA, merit pay can only be given to exempt, nonmanagement employees at a company.

Answer: FALSE

Explanation: Although the term merit pay can apply to the incentive raises given to any employee—exempt or nonexempt, office or factory, management or nonmanagement—the term is more often used for white-collar employees and particularly professional, office, and clerical employees.

Difficulty: Moderate

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

53) Lump sum merit increases can be a more significant motivator than traditional merit pay because the amount seems greater when received all at once.

Answer: TRUE

Explanation: Lump-sum merit increases can also be more dramatic motivators than a traditional merit raise. For example, a 5% lump-sum merit payment to a \$30,000 employee is \$1,500 cash, as opposed to a traditional weekly merit payout of \$29 for 52 weeks.

Difficulty: Easy

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

54) In order for a firm to have an effective incentive plan, there should be a clear relationship between employee effort and quantity or quality of output.

Answer: TRUE

Explanation: It makes sense to use an incentive plan when there is a clear relationship between employee effort and the quantity or quality of output.

Difficulty: Moderate

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

55) Dual-career ladders are effective tools for managing the professional pay of working mothers who desire a work-life balance.

Answer: FALSE

Explanation: Dual-career ladders are another way to manage professionals' pay but not necessarily working mothers. At many employers, a bigger salary and bonus requires re-routing from, say, engineering into management. However, not all professionals want such paths. Therefore, many employers institute dual career paths, in other words one path for managers, and another for technical experts.

Difficulty: Easy

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

56) Explain the advantages and disadvantages of using piecework as a pay plan.

Answer: Piecework incentive plans have several advantages. They are simple to calculate and easily understood by employees. Piece rate plans appear equitable in principle, and in their incentive value, and are powerful since they tie pay directly to performance. Piecework also has disadvantages. The main one is its unsavory reputation among many employees based on some employers' habit of arbitrarily raising production standards whenever they found their workers earning "excessive wages." A more subtle disadvantage is that since piece rate are quoted on a per piece basis, in workers' minds, production standards (pieces per hour) become tied inseparably to the amount of money earned. Piece rate systems thus risk engendering rigidity. When the employer tries to revise production standards, resistance ensues. Employees become preoccupied with producing the number of units needed. They can become less focused on quality and may resist switching jobs (since doing so could reduce productivity).

Difficulty: Moderate

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

57) Employers may award merit pay as traditional merit increases that increase an employee's base pay or as a lump sum merit raise. Explain the pros and cons of these two choices.

Answer: Traditional merit increases are cumulative but most lump sum merit raises are not. For employees receiving traditional merit increases, raises in subsequent years are based on the new higher amount. With lump sum merit raises, payroll expenses can be minimized over time while still offering an incentive. Further, the lump sum amount may seem more impressive to employees because it is a large amount paid at one time. For instance, a lump sum merit payment of \$1500 may seem more desirable than a traditional weekly merit payout of \$29 for 52 weeks.

Difficulty: Moderate

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

58) Sometimes managers need to reinforce positive behavior but cannot turn to a cash incentive to do so. Identify some positive reinforcement rewards that a manager could use on a day-to-day basis to reward employees.

Answer: There is a long list possible, such as: employee recognition, gift certificates, special events, cash rewards, merchandise incentives, e-mail/print communications, training programs, work/life benefits, variable pay, group travel, individual travel, sweepstakes, encouraging learning and continuous improvement, providing encouragement, giving compliments, allowing employees to set their own goals, expressing appreciation in front of others, sending a note of thanks, giving an employee-of-the-month award, providing a bigger or nicer desk or office. Research indicates that both the financial and nonfinancial incentives improve employee and store performance. The term recognition program usually refers to formal programs, such as employee-of-the-month programs. Social recognition programs generally refer to informal manager-employee exchanges such as praise, approval, or expression of appreciation for a job well done. Employers often supplement financial incentives with various non-financial and recognition based awards. Performance feedback means providing quantitative or qualitative information on task performance to change or maintain performance; showing workers a graph of how their performance is trending is an example.

Difficulty: Hard

Chapter: 12

Objective: 2

AACSB: Analytical Thinking

Learning Outcome: 12.2 Discuss the main incentives for individual employees.

59) Enterprise incentive management systems enable firms to \_\_\_\_\_.

- A) compare corporate incentive programs
- B) accurately calculate sales commissions
- C) efficiently administer employee incentive programs
- D) create a matrix of merit awards and incentive options

Answer: C

Explanation: C) Incentive programs can be expensive and complicated to administer. As one solution, vendors provide enterprise incentive management (EIM) systems. These automate the planning, analysis, and management of incentive compensation plans.

Difficulty: Hard

Chapter: 12

Objective: 3

AACSB: Analytical Thinking

Learning Outcome: 12.3 Discuss the pros and cons of commissions versus straight pay for salespeople.

60) A straight salary is most appropriate when a salesperson's primary duties involve \_\_\_\_\_.

- A) finding new clients
- B) meeting sales quotas
- C) pushing hard-to-sell items
- D) fostering relationships with customers

Answer: A

Explanation: A) Some firms pay salespeople fixed salaries, which makes sense when the main task involves prospecting (finding new clients) or account servicing (such as participating in trade shows). Meeting with clients and selling difficult items should be paid with commissions.

Difficulty: Moderate

Chapter: 12

Objective: 3

AACSB: Analytical Thinking

Learning Outcome: 12.3 Discuss the pros and cons of commissions versus straight pay for salespeople.

61) Using a straight salary to compensate salespeople is most likely ineffective because it \_\_\_\_\_.

- A) discourages sales flexibility
- B) lacks connection to performance
- C) makes it hard to switch territories
- D) depends on annual corporate profits

Answer: B

Explanation: B) The main disadvantage is that straight salary can demotivate potentially high-performing salespeople. The straight salary approach makes it easier to switch territories or to reassign salespeople, and it can foster sales staff loyalty.

Difficulty: Hard

Chapter: 12

Objective: 3

AACSB: Analytical Thinking

Learning Outcome: 12.3 Discuss the pros and cons of commissions versus straight pay for salespeople.

62) All of the following are disadvantages of straight commission plans EXCEPT \_\_\_\_\_.

- A) salespeople avoid pushing hard-to-sell items
- B) salespeople fail to service small accounts
- C) payments are complicated to calculate
- D) significant variations in pay exist

Answer: C

Explanation: C) Straight commission plans are easy to understand and compute. However, salespeople tend to focus on making the sale and on high-volume items, and may neglect nonselling duties like servicing small accounts, cultivating dedicated customers, and pushing hard-to-sell items. Wide variations in pay may occur; this can make some feel the plan is inequitable.

Difficulty: Hard

Chapter: 12

Objective: 3

AACSB: Analytical Thinking

Learning Outcome: 12.3 Discuss the pros and cons of commissions versus straight pay for salespeople.

63) Which of the following is the primary advantage of using a combination of salary and commission as compensation for salespeople?

- A) provides a guaranteed minimum salary
- B) allows freedom to choose own work activities
- C) completely links to performance
- D) offers simple administration

Answer: A

Explanation: A) The main advantage of combination plans is that they offer salespeople a floor to their earnings. However, such plans are usually complicated and difficult to administer, and only the commission percentage is linked to performance.

Difficulty: Hard

Chapter: 12

Objective: 3

AACSB: Analytical Thinking

Learning Outcome: 12.3 Discuss the pros and cons of commissions versus straight pay for salespeople.

64) Edward is the new sales manager at Wilson Auto Mart. The previous sales manager set commission rates informally without considering how much each sale covered expenses. As a result, Wilson Auto Mart barely breaks even on each car sale once commissions are paid. Edward wants to motivate his sales force but avoid having excessive commissions.

All of the following questions are relevant to developing an effective sales compensation plan EXCEPT:

- A) How much time does each Wilson salesperson spend with qualified prospects?
- B) What are the motivation and skill levels of Wilson sales team members?
- C) What is the average annual bonus received by Wilson's CEO?
- D) What is Wilson's desired profit for each car sale?

Answer: C

Explanation: C) Questions about profit, motivation, skill levels, and time spent with likely customers are relevant to developing an effective sales compensation plan. The annual bonus received by Wilson's CEO is not directly relevant to motivating the sales team.

Difficulty: Hard

Chapter: 12

Objective: 3

AACSB: Application of Knowledge

Learning Outcome: 12.3 Discuss the pros and cons of commissions versus straight pay for salespeople.

65) Edward is the new sales manager at Wilson Auto Mart. The previous sales manager set commission rates informally without considering how much each sale covered expenses. As a result, Wilson Auto Mart barely breaks even on each car sale once commissions are paid. Edward wants to motivate his sales force but avoid having excessive commissions.

Which of the following, if true, supports the argument that Edward should pay his sales team a combination of salary plus commission?

- A) Wilson Auto Mart's sales team consists of high-performing, experienced salespeople.
- B) Wilson Auto Mart has a sales force that has a significant desire for a floor to their earnings.
- C) Each Wilson Auto Mart salesperson is encouraged to sell at least ten vehicles each month.
- D) Wilson Auto Mart salespeople are primarily asked to find new clients and service current accounts.

Answer: B

Explanation: B) A major advantage of combination plans is they give salespeople a floor to their earnings.

Difficulty: Hard

Chapter: 12

Objective: 3

AACSB: Application of Knowledge

Learning Outcome: 12.3 Discuss the pros and cons of commissions versus straight pay for salespeople.

66) What percentage of employers track sales performance using spreadsheets?

- A) 15%
- B) 35%
- C) 60%
- D) 85%

Answer: C

Explanation: C) Somewhat astonishingly, given the amount of money employers pay out in commissions and significant technological advancement, about 60% of employers track sales performance and sales commissions much as they did decades ago, using spreadsheets.

Difficulty: Moderate

Chapter: 12

Objective: 3

AACSB: Analytical Thinking

Learning Outcome: 12.3 Discuss the pros and cons of commissions versus straight pay for salespeople.

67) Straight commission plans are attractive to high-performing salespeople.

Answer: TRUE

Explanation: Commission plans tend to attract high-performing salespeople who see that effort clearly produces rewards.

Difficulty: Easy

Chapter: 12

Objective: 3

AACSB: Analytical Thinking

Learning Outcome: 12.3 Discuss the pros and cons of commissions versus straight pay for salespeople.

68) You are the manager of large used car retailer, and sales are sluggish. What incentive plan would be best for motivating your sales team?

Answer: Most companies pay salespeople a combination of salary and commissions, usually with a sizable salary component. An incentive mix of about 70% base salary/30% incentive seems typical; this cushions the salesperson's downside risk (of earning nothing), while limiting the risk that the commissions could get out of hand from the firm's point of view. Combination plans give salespeople a floor to their earnings, let the company specify what services the salary component is for (such as servicing current accounts), and still provide an incentive for superior performance.

Difficulty: Hard

Chapter: 12

Objective: 3

AACSB: Application of Knowledge

Learning Outcome: 12.3 Discuss the pros and cons of commissions versus straight pay for salespeople.

69) Which of the following terms refers to the right to purchase a stated number of shares of a company stock at today's price at some time in the future?

- A) at-risk variable plan
- B) multiplier method
- C) stock option
- D) gainsharing plan

Answer: C

Explanation: C) A stock option is the right to purchase a specific number of shares of company stock at a specific price during a specific period. The assumption is that the price of the stock will go up.

Difficulty: Easy

Chapter: 12

Objective: 4

AACSB: Analytical Thinking

Learning Outcome: 12.4 Describe the main incentives for managers and executives.

70) With which of the following can an executive NOT profit until the stock makes significant gains?

- A) indexed options
- B) phantom stock
- C) restricted stock
- D) premium priced options

Answer: D

Explanation: D) With premium priced options, the exercise price is higher than the stock's closing price on the date of the grant, so the executive can't profit from the options until the stock makes significant gains.

Difficulty: Easy

Chapter: 12

Objective: 4

AACSB: Analytical Thinking

Learning Outcome: 12.4 Describe the main incentives for managers and executives.

71) With a \_\_\_\_\_, an executive receives units instead of shares of company stock. In the future, the executive receives cash equal to the appreciation of the units owned.

- A) nonqualified stock option
- B) premium priced option
- C) phantom stock plan
- D) restricted stock plan

Answer: C

Explanation: C) Under phantom stock plans, executives receive not shares but "units" that are similar to shares of company stock. Then at some future time, they receive value (usually in cash) equal to the appreciation of the "phantom" stock they own.

Difficulty: Easy

Chapter: 12

Objective: 4

AACSB: Analytical Thinking

Learning Outcome: 12.4 Describe the main incentives for managers and executives.

72) Which term refers to payments companies make in connection with a change in ownership or control of a company?

- A) pension
- B) golden parachute
- C) retirement bonus
- D) stock option

Answer: B

Explanation: B) Golden parachutes are extraordinary payments companies make to executives in connection with a change in ownership or control of a company. For example, a company's golden parachute clause might state that, with a change in ownership of the firm, the executive would receive a one-time payment of two million dollars.

Difficulty: Easy

Chapter: 12

Objective: 4

AACSB: Analytical Thinking

Learning Outcome: 12.4 Describe the main incentives for managers and executives.

73) The most common eligibility determinant for bonuses is:

- A) salary grade
- B) job title
- C) officer status
- D) base salary

Answer: A

Explanation: A) Rather than job title or officer status, salary grade or band was the most common eligibility determinant, reported by 42% of employers in one survey.

Difficulty: Hard

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.4 Describe the main incentives for managers and executives.

74) Annual bonus plans are long-term incentives, and stock options are short-term incentives.

Answer: FALSE

Explanation: Most firms have annual bonus plans aimed at motivating managers' short-term performance. Short-term bonuses can easily result in plus or minus adjustments of 25% or more to total pay. Stock options are a type of long-term incentive.

Difficulty: Moderate

Chapter: 12

Objective: 4

AACSB: Analytical Thinking

Learning Outcome: 12.4 Describe the main incentives for managers and executives.

75) Cash, stock, stock options, stock appreciation rights, and phantom stock are known as "golden handcuffs" because they are long-term incentives for executives.

Answer: TRUE

Explanation: Long-term incentives are also "golden handcuffs"—they motivate executives to stay with the company by letting them accumulate capital that they can only cash in after a certain number of years. Popular long-term incentives include cash, stock, stock options, stock appreciation rights, and phantom stock.

Difficulty: Moderate

Chapter: 12

Objective: 4

AACSB: Analytical Thinking

Learning Outcome: 12.4 Describe the main incentives for managers and executives.

76) Experts assert that stock options encourage executives to take dangerous risks and are to blame for many corporate scandals.

Answer: TRUE

Explanation: Many blame stock options for contributing to corporate scandals, in which executives allegedly manipulated the dates they received their options to maximize their returns. Options may also encourage executives to take perilous risks in pursuit of higher, short-term profits.

Difficulty: Moderate

Chapter: 12

Objective: 4

AACSB: Analytical Thinking

Learning Outcome: 12.4 Describe the main incentives for managers and executives.

77) Golden parachutes are large payments companies make to executives in connection with a change in company ownership or control.

Answer: TRUE

Explanation: Golden parachutes are extraordinary (large) payments companies make to executives in connection with a change in company ownership or control.

Difficulty: Moderate

Chapter: 12

Objective: 4

AACSB: Analytical Thinking

Learning Outcome: 12.4 Describe the main incentives for managers and executives.

78) You are the CEO of Blue Bay Motor Boat Company, a mid-size firm that manufactures speed boats. What incentive plan would you implement for the firm's engineers? What incentive plan would you implement for the firm's managers? Explain why.

Answer: Stock options, bonuses, and profit sharing would be appropriate for the engineers. Recognition-based awards and nonfinancial incentives would most likely encourage engineers to work hard as well. For executives, stock options, performance shares, stock plans, and golden parachutes are useful long-term incentives. Annual bonuses are useful in motivating the short-term performance of managers.

Difficulty: Hard

Chapter: 12

Objective: 2, 4

AACSB: Application of Knowledge

Learning Outcome: 12.4 Describe the main incentives for managers and executives.

79) What is the Sarbanes-Oxley Act? How does it affect incentive plans? Do you support the legislation? Why or why not?

Answer: The Sarbanes-Oxley Act of 2002 affects how employers formulate their executive incentive programs. Congress passed Sarbanes-Oxley to inject a higher level of responsibility into executives' and board members' decisions. It makes them personally liable for violating their fiduciary responsibilities to their shareholders. The act also requires CEOs and CFOs of a public company to repay any bonuses, incentives, or equity-based compensation received from the company during the 12-month period following the issuance of a financial statement that the company must restate due to material noncompliance with a financial reporting requirement stemming from misconduct.

Difficulty: Moderate

Chapter: 12

Objective: 4

AACSB: Analytical Thinking

Learning Outcome: 12.4 Describe the main incentives for managers and executives.

80) All of the following are advantages of team incentive plans EXCEPT that \_\_\_\_\_.

- A) jealousy is reduced
- B) wage equity is guaranteed
- C) team planning is reinforced
- D) problem solving is encouraged

Answer: B

Explanation: B) The benefits of team incentive plans include reduced jealousy and increased team planning, problem solving, and collaboration. The primary problem relates to inequity in financial compensation because everyone is paid equally but does not work equally.

Difficulty: Hard

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

81) The employees at DataMax participate in a profit-sharing plan. DataMax distributes 15% of its profits as profit shares to employees at regular intervals. Which of the following is most likely used at DataMax?

- A) current profit-sharing
- B) Lincoln incentive system
- C) deferred profit-sharing plan
- D) employee stock ownership plan

Answer: A

Explanation: A) There are several types of profit-sharing plans. With current profit-sharing or cash plans, employees share in a portion of the employer's profits quarterly or annually. In cash plans, the firm simply distributes a percentage of profits (usually 15% to 20%) as profit shares to employees at regular intervals.

Difficulty: Easy

Chapter: 12

Objective: 5

AACSB: Application of Knowledge

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

82) Tanner's employer puts a predetermined portion of profits into a trust account for Tanner's retirement. Which of the following is most likely the type of profit-sharing plan used by Tanner's employer?

- A) deferred profit-sharing plan
- B) Lincoln incentive system
- C) Jefferson incentive system
- D) gainsharing plan

Answer: A

Explanation: A) With deferred profit-sharing plans, the employer puts cash awards into trust accounts for the employees' retirement. Here the employer generally distributes the awards based on a percentage of the employee's salary, or some measure of the employee's contribution to company profits.

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Application of Knowledge

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

83) Which profit-sharing plan provides tax advantages for employees by postponing income taxes, often until the employee retires?

- A) cash plan
- B) Lincoln incentive system
- C) deferred profit-sharing plan
- D) employee stock ownership plan

Answer: C

Explanation: C) With deferred profit-sharing plans, the employer puts cash awards into trust accounts for the employees' retirement. Here the employer generally distributes the awards based on a percentage of the employee's salary, or some measure of the employee's contribution to company profits. There is a tax advantage, since employees' income taxes on the distributions are deferred, often until the employee retires.

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

84) The Scanlon plan includes all of the following features EXCEPT \_\_\_\_\_.

- A) identity
- B) competency
- C) a philosophy of cooperation
- D) a focus on individual achievement

Answer: D

Explanation: D) The five features of the Scanlon plan include a philosophy of cooperation, identity, competency, an involvement system, and a sharing of benefits formula. The plan does not call for focusing on individual achievement.

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

85) Which incentive plan is based on a philosophy that managers and employees must cooperate together?

- A) cash plan
- B) Scanlon plan
- C) deferred profit-sharing plan
- D) employee stock ownership plan

Answer: B

Explanation: B) The Scanlon plan is based on a philosophy of cooperation. This philosophy assumes that managers and workers must rid themselves of the "us" and "them" attitudes that normally inhibit employees from developing a sense of ownership in the company.

Difficulty: Easy

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

86) Which of the following best explains identity in regards to the Scanlon plan?

- A) philosophy of cooperation among employees
- B) clear articulation of the company mission
- C) high level of competency from all employees
- D) corporate-wide benefits and savings

Answer: B

Explanation: B) One feature of the Scanlon plan is identity. Identity means that in order to focus employee involvement, the company must articulate its mission or purpose, and employees must understand how the business operates in terms of customers, prices, and costs.

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

87) Competence in the Scanlon plan refers to a focus on \_\_\_\_\_.

- A) cooperation
- B) corporate vision
- C) employee abilities
- D) significant improvements

Answer: C

Explanation: C) Competence is a third basic feature of the Scanlon plan. The program, say three experts, "explicitly recognizes that a Scanlon plan demands a high level of competency from employees at all levels." This suggests careful selection and training.

Difficulty: Easy

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

88) The Scanlon plan is an early version of a \_\_\_\_\_ plan, an incentive plan that engages employees in a common effort to achieve productivity objectives.

- A) performance achievement
- B) golden parachute
- C) gainsharing
- D) variable pay

Answer: C

Explanation: C) The Scanlon plan is one early version of a gainsharing plan. Gainsharing is an incentive plan that engages many or all employees in a common effort to achieve a company's productivity objectives, with any resulting cost-savings gains shared among employees and the company.

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

89) Gainsharing is an incentive plan that \_\_\_\_\_.

A) uses a trust to hold stock in individual employee accounts and distributes it to employees upon retirement

B) engages employees in a common effort to achieve a company's productivity objectives with any resulting cost-savings gains shared among employees and the company

C) contributes company shares of its own stock or cash to be used to purchase company stock to a trust established to purchase shares of the firm's stock for employees

D) provides tax advantages for employees by deferring income taxes, often until the employee retires

Answer: B

Explanation: B) Gainsharing is an incentive plan that engages many or all employees in a common effort to achieve a company's productivity objectives, with any resulting cost-savings gains shared among employees and the company.

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

90) Which of the following is NOT a type of gainsharing plan?

A) Improshare

B) Lincoln

C) Rucker

D) Roth

Answer: D

Explanation: D) In addition to the Scanlon plan, other popular gainsharing plans include the Lincoln, Rucker, and Improshare plans. Roth is not a type of gainsharing plan.

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

91) Tyler Oil offers a profit-sharing plan to its employees. Each year, Tyler Oil distributes total annual profits less taxes among employees based on employee merit ratings. Which of the following is most likely used by Tyler Oil?

- A) cash plan
- B) Lincoln incentive system
- C) deferred profit-sharing plan
- D) employee stock ownership plan

Answer: B

Explanation: B) In one version of the Lincoln incentive system, first instituted at the Lincoln Electric Company of Ohio, employees work on a guaranteed piecework basis. The company distributes total annual profits (less taxes, 6% dividends to stockholders, and a reserve) each year among employees based on their merit rating.

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Application of Knowledge

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

92) The Lincoln incentive system is an incentive plan that \_\_\_\_\_.

- A) uses a trust to hold stock in individual employee accounts and distributes it to employees upon retirement
- B) engages many or all employees in a common effort to achieve a company's productivity objectives with any resulting cost-savings gains shared among employees and the company
- C) contributes company shares of its own stock or cash to be used to purchase company stock to a trust established to purchase shares of the firm's stock for employees
- D) involves the firm distributing total annual profits each year among employees based on their merit rating

Answer: D

Explanation: D) In one version of the Lincoln incentive system, first instituted at the Lincoln Electric Company of Ohio, employees work on a guaranteed piecework basis. The company distributes total annual profits each year among employees based on their merit rating.

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

93) When hired by Delmar Designs, Shane agreed to forego 6% of his normal pay if he didn't meet his goals in return for a 12% bonus if he exceeded his goals. In which type of plan does Shane most likely participate?

- A) earnings-at-risk pay plan
- B) variable risk sharing plan
- C) at-risk gainsharing plan
- D) employee at-risk plan

Answer: A

Explanation: A) At-risk variable pay plans are plans that put some portion of the employee's weekly, monthly, or yearly pay at risk. If employees meet or exceed their goals, they earn back not only the portion of their pay that was at risk, but also an incentive. If they fail to meet their goals, they forego some of the pay they would normally earn.

Difficulty: Easy

Chapter: 12

Objective: 5

AACSB: Application of Knowledge

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

94) Elaine, the HR manager at Western Enterprises, will get stock distributed to her from a trust when she retires. This is known as a(n):

- A) profit-sharing plan
- B) earnings-at-risk plan
- C) Employee stock ownership plan (ESOP)
- D) gainsharing plan

Answer: C

Explanation: C) Employee stock ownership plans (ESOP) are company-wide plans in which the employer contributes shares of its own stock (or cash to be used to purchase such stock) to a trust established to purchase shares of the firm's stock for employees. The trust holds the stock in individual employee accounts. It then distributes the stock to employees upon retirement.

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Application of Knowledge

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

95) In \_\_\_\_\_, employees agree to put some portion of their normal pay at risk if they don't meet their goals, in return for a much larger bonus if they exceed their goals.

- A) earnings-at-risk pay plans
- B) gainsharing
- C) the Scanlon plan
- D) team incentive plans

Answer: A

Explanation: A) In earnings-at-risk pay plans, employees agree to put some portion (say, 10%) of their normal pay at risk (forego it) if they don't meet their goals, in return for possibly obtaining a much larger bonus if they exceed their goals.

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

96) Studies suggest that ESOPs probably do lead to increases in employee:

- A) performance
- B) sense of ownership
- C) motivation
- D) helping behaviors

Answer: B

Explanation: B) Studies suggest that ESOPs probably do encourage employees to develop a sense of ownership in and commitment to the firm, but their effects on motivation and performance are questionable.

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

97) What percentage of large employers use some type of group- or team-based incentives?

- A) 15%
- B) 40%
- C) 60%
- D) 85%

Answer: D

Explanation: D) About 85% of large employers reportedly use some type of group- or team-based incentives,

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

98) The main feature of broad-based stock option plans is:

- A) monthly stock options
- B) option to buy as many shares as desired
- C) restricted to closely held organizations
- D) all or most employees can participate

Answer: D

Explanation: D) All or most employees can participate in broad-based stock option plans. The basic thinking is that sharing ownership in the company with employees makes motivational and practical sense.

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

99) Employees at GameTime Software participate in a gainsharing plan. Employee bonuses are calculated by dividing payroll expenses by total sales. GameTime Software most likely uses which of the following plans?

- A) Lincoln
- B) Rucker
- C) Improshare
- D) Scanlon

Answer: D

Explanation: D) The Scanlon formula divides payroll expenses by total sales (or, sometimes, by total sales plus increases in inventory).

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Application of Knowledge

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

100) McDonald Manufacturing contributes cash to a trust established to purchase shares of McDonald stock for employees. Which of the following is most likely offered by McDonald Manufacturing?

- A) cash plans
- B) Lincoln incentive systems
- C) deferred profit-sharing plans
- D) employee stock ownership plans

Answer: D

Explanation: D) Employee stock ownership plans (ESOPs) are company-wide plans in which the employer contributes shares of its own stock to a trust established to purchase shares of the firm's stock for employees. The firm generally makes these contributions annually in proportion to total employee compensation, with a limit of 15% of compensation.

Difficulty: Easy

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

101) Which of the following is the primary benefit of employee stock ownership plans?

- A) Firms are able to implement the plans with minimal costs and complications.
- B) Firms pay distribution taxes for employees prior to retirement.
- C) Firms may borrow against employee stock held in trust.
- D) Employees are able to diversify their investments.

Answer: C

Explanation: C) The main reason that ESOPs are popular is that a firm gets a tax deduction equal to the fair market value of the shares it transfers to the trustee and can claim an income tax deduction for dividends paid on ESOP-owned stock. Employees are taxed when they receive a distribution from the trust, usually at retirement.

Difficulty: Hard

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

102) Research indicates that employee stock ownership plans most likely \_\_\_\_\_.

- A) encourage employees to retire too early
- B) place firms at greater risk for employee lawsuits
- C) increase employee commitment
- D) encourage transparency within global organizations

Answer: C

Explanation: C) Research suggests that ESOPs do encourage employees to develop a sense of ownership in and commitment to the firm. For the plans to be effective, firms must be responsible for their funds.

Difficulty: Hard

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

103) Top executives at DYS Enterprises are considering the idea of implementing an employee incentive plan. Which of the following suggests that an incentive plan would NOT be appropriate at DYS Enterprises?

- A) Delays rarely occur.
- B) The job is standardized.
- C) Employees are unskilled but motivated.
- D) A link exists between employee effort and output.

Answer: C

Explanation: C) Incentive plans are effective and appropriate when motivation (and not ability) is the problem. They are also appropriate when there is a clear relationship between employee effort and quantity or quality of output, the job is standardized, and delays are few or consistent.

Difficulty: Hard

Chapter: 12

Objective: 5

AACSB: Application of Knowledge

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

104) Studies suggest that team incentive plans enhance productivity because the work load is equally distributed among team members, which fosters cooperation.

Answer: FALSE

Explanation: Most large employers use team incentive plans, but studies suggest they are counterproductive. Inequity is the issue because usually a few people do the work but everyone shares the reward.

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

105) The Scanlon plan is a type of gainsharing plan.

Answer: TRUE

Explanation: The Scanlon plan is one early version of a gainsharing plan. Gainsharing is an incentive plan that engages many or all employees in a common effort to achieve a company's productivity objectives, with any resulting cost-savings gains shared among employees and the company.

Difficulty: Moderate

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

106) Research suggests that employee stock ownership plans discourage employees from developing a sense of ownership in and commitment to the firm, which is why the programs are decreasing in popularity.

Answer: FALSE

Explanation: Research suggests that ESOPs encourage employees to develop a sense of ownership in and commitment to the firm.

Difficulty: Easy

Chapter: 12

Objective: 4

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

107) Gainsharing is an incentive plan where employee efforts that result in cost-savings gains are shared among employees and the company.

Answer: TRUE

Explanation: Gainsharing is an incentive plan that engages many or all employees in a common effort to achieve a company's productivity objectives, with any resulting cost-savings gains shared among employees and the company.

Difficulty: Easy

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

108) In a brief essay, discuss the difference between annual bonuses for employees and gainsharing plans.

Answer: Most firms have annual bonus plans aimed at motivating managers' short-term performance. Short-term bonuses can easily result in plus or minus adjustments of 25% or more to total pay. Three factors influence one's bonus: eligibility, fund size, and individual performance. Gainsharing is an incentive plan that engages many or all employees in a common effort to achieve a company's productivity objectives, with any resulting cost-savings gains shared among employees and the company. Popular gainsharing plans include the Scanlon, Lincoln, Rucker, and Improshare plans.

The basic difference among these plans is how employers determine employee bonuses. The Scanlon formula divides payroll expenses by total sales (or, sometimes, by total sales plus increases in inventory). In one version of the Lincoln incentive system, first instituted at the Lincoln Electric Company of Ohio, employees work on a guaranteed piecework basis. The company then distributes total annual profits (less taxes, 6% dividends to stockholders, and a reserve) each year among employees based on their merit rating. Most firms customize their gainsharing plans.

Difficulty: Hard

Chapter: 12

Objective: 4, 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

109) Explain the advantages of employee stock ownership plans.

Answer: The company that offers the ESOP receives a tax deduction equal to the fair market value of the shares that are transferred to the trustee and can claim an income tax deduction for dividends paid on ESOP-owned stock. Employees aren't taxed until they receive a distribution from the trust, usually at retirement when the tax rate is lower. The Employee Retirement Income Security Act allows a firm to borrow against employee stock held in trust and then repay the loan in pretax rather than after-tax dollars. ESOPs also help shareholders of closely held corporations to diversify their assets by placing some of their own shares of the company's stock into the ESOP trust and purchasing other marketable securities for themselves in their place. ESOPs also encourage employees to develop a sense of ownership in and commitment to the firm. They provide increased financial incentives, create a sense of ownership, and help to build teamwork.

Difficulty: Hard

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.

110) Describe what a Scanlon Plan is and its 5 major elements.

Answer: The Scanlon plan was developed in 1937 by Joseph Scanlon, a United Steel Workers Union official.

Scanlon plans have five basic features. The first is Scanlon's philosophy of cooperation. This philosophy assumes that managers and workers must rid themselves of the "us" and "them" attitudes that normally inhibit employees from developing a sense of ownership in the company.

A second feature is what its practitioners call identity. This means that in order to focus employee involvement, the company must articulate its mission or purpose, and employees must understand how the business operates in terms of customers, prices, and costs.

Competence is a third basic feature. The program, say three experts, "explicitly recognizes that a Scanlon plan demands a high level of competency from employees at all levels." This suggests careful selection and training.

The fourth feature of the plan is the involvement system. Employees present improvement suggestions to the appropriate departmental-level committees, which transmit the valuable ones to the executive-level committee. It then decides whether to implement the suggestion.

The fifth element of the plan is the sharing of benefits formula. If a suggestion is implemented and successful, all employees usually share in 75% of the savings. For example, assume that the normal monthly ratio of payroll costs to sales is 50%. (Thus, if sales are \$600,000, payroll costs should be \$300,000.) Assume the firm implements suggestions that result in payroll costs of \$250,000 in a month when sales were \$550,000 and payroll costs therefore should have been \$275,000 (50% of sales). The savings attributable to these suggestions is \$25,000 (\$275,000 minus \$250,000). Workers would typically split 75% of this (\$18,750), while \$6,250 would go to the firm. In practice, the firm sets aside about one-quarter of the \$18,750, for months when payroll costs exceed the standard.

Difficulty: Hard

Chapter: 12

Objective: 5

AACSB: Analytical Thinking

Learning Outcome: 12.5 Name and describe the most popular organization-wide incentive plans.