

**University of Illinois at Urbana-Champaign**  
**School of Labor and Employment Relations**  
**LER 561: Compensation Systems**  
**Spring 2021**

**Instructor:** Mengjie Lyu, Ph.D.  
Visiting Assistant Professor, LER

**Schedule:** Thursdays, 8:00am–10:50am (Central Time)

**Format:** Online classes using Zoom  
<https://illinois.zoom.us/j/87238663651?pwd=dkNoVnZFKzZ0NzF6ZUpFUUhuNlZRdz09>

**Office Hours:** By appointment

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### **Course Description**

As one of the most visible outcomes of the employment relationship, compensation plays a key role in attracting, retaining, and motivating employees. A well designed and implemented compensation system should serve many objectives: internal consistency and equity, market competitiveness, recognition of employee contributions, compliance to laws and regulations.

The goal of this course is to provide students with a solid understanding of compensation systems from the perspective of an HR professional. Major topics include mix of pay, pay structure, internal equity, external competitiveness, compliance with compensation regulations, linkage with performance, compensation data analysis, compensation for special groups, and employee benefits.

By the end of this course, students should understand:

1. The pay model.
2. The effects of law and regulation on compensation.
3. The underlying reasons of wage differentials.
4. The process of determining base pay and pay structure.
5. The development of pay for performance plans.
6. The development of benefits programs.
7. The compensation issues for special employee groups.

With the in-class exercises, case discussions, and the course project, students should also be able to design and evaluation compensation plans that are internally consistent, externally competitive, aligned with the organization strategy, and complied with laws and regulations.

### **Online Class Description**

The major portion of our class will be conducted during live “virtual” sessions, starting at 8:00 am (Central Time) on Thursdays. At each class, there will be a lecture and class activities in forms of student presentation, in-class exercise, and case discussion. A copy of lecture slides will be posted on Compass before the class as a basis for taking notes. You will be encouraged to

activate both your audio and video during these sessions, so it is important that you have these technical capabilities before the first class.

We will be using Zoom for the virtual portion of our weekly class meetings. The meeting links will be also posted on the course website (<https://compass2g.illinois.edu>). Refer to the Zoom guide (<https://answers.uillinois.edu/illinois/page.php?id=99188>) if you need assistance or have questions on Zoom. If you anticipate having any connectivity issues (access to internet, etc.), please contact me and I will work with you to make sure you can access the key course contents.

**Required Textbook and Readings**

- Martocchio, J. J. *Strategic Compensation: A Human Resource Management Approach* (9<sup>th</sup> or 10<sup>th</sup> edition). Upper Saddle River, NJ: Prentice Hall.
- Case readings are available for purchase on the Harvard Business Publishing website.
- Supplemental readings, in-class exercise material, lecture notes, and useful resources will be posted on Compass 2g. Please check regularly for updates.

**Course Evaluation and Grading Scale**

Midterm Exam	<b>30%</b>
Group Project Report and Presentation	<b>30%</b>
In-class Exercises and Discussions	<b>15%</b>
Weekly Review Questions	<b>10%</b>
Individual Presentation on a Compensation Issue	<b>10%</b>
Class Participation	<b>5%</b>
<b>Total</b>	<b>100%</b>

**Calculation of Course Grades**

<b>Grade</b>	<b>Points</b>
A	96-100%
A-	92-95.9%
B+	88-91.9%
B	84-87.9%
B-	80-83.9%
C+	77-79.9%
C	73-76.9%
C-	70-72.9%
D+	67-69.9%
D	63-66.9%

D-	60-62.9%
F	< 60%

### **Midterm Exam (30%)**

A midterm exam will take place on March 18 (Week 8) during the class-time and it will be administered on the course Compass page. The major purpose of the exam is to ensure your mastery of important concepts, principles, and theories in this course. The exam questions will cover assigned reading, lectures, and in-class exercises and discussions.

### **Compensation Group Project: *Building A Strategic Compensation System* (30%)**

An experiential project is designed to provide you with an opportunity to integrate and apply knowledge that you will learn in this course. Teams of 3 or 4 class members will be established to complete this project. Each team will serve as compensation experts who have been hired by a company of your choice to develop an integrated compensation plan for one of its departments/teams from beginning to end. A group written report (20%) and a group presentation (10%) will be the major outcomes of the project. The report is due by 5pm on 5/6. The presentation is scheduled in Week 14 (4/29). A detailed instruction including the specific requirements, report structure, and grading rubric will be provided in class.

The group project requires continuous commitment of every group member. Each part of the project builds uniquely on your answers to prior parts of the project. In-class group project working time will be provided when possible. The grade for the group project will be a group grade, but peer evaluation will be used so that each group member does not necessarily receive the same grade.

### **In-Class Exercises and Discussions (15%)**

In each class, there will be an in-class exercise and/or a case discussion. Groups of 2 or 3 class members will be established to work together in each activity. You will submit the responses through Compass and may make a presentation to the class.

### **Weekly Review Questions (10%)**

Several questions on the assigned readings will be posted as a short quiz every week on the course Compass page. The quizzes are due at the start of the class.

### **Individual Presentation of a Compensation Issue (10%)**

Starting from Week 3, each week 1 or 2 students will give an individual presentation that covers a compensation issue. The issue could come from a particular news story or research article you read about compensation. You can also share your findings based on your own experiences and observations. You will briefly present the news/research (no more than 5 minutes) and then lead class discussion based on two questions.

We will have a discussion board on the course Compass page as a supplemental communication method to collect news/research summaries, comments, and questions. Please post a short summary of the news/research and the links of the news/research articles on the discussion board by 12pm on the Tuesday of your assigned week. Grades will be given based on the summary posted (2%), the presentation (6%), and the class discussion lead after the presentation (2%).

### **Class Participation (5%)**

You are expected to be actively participating in all class discussion and group activities. 5% of the total points will be awarded for your regular attendance and general class participation including answering and asking questions in class, facilitating the group activities, speaking as the representative of the discussion group, and posting your comments on the discussion board. Zoom poll questions will also be given to check and record your attendance.

### **Course Schedule**

	<b>Topics and Class Activity (Supplemental readings will be posted on Compass)</b>	<b>Text</b>
<b>Week 1 (1/28)</b>	<b>Course Overview, Introduction to Strategic Compensation</b>  <b>Class Activity:</b> Compensation Decisions in a Difficult Time	<b>Chapter 1</b>
<b>Week 2 (2/4)</b>	<b>Theory and Contextual Influences on Compensation Practice</b>  <b>Class Activity:</b> Impact of Employment Legislation on Compensation	<b>Chapter 2</b>
<b>Week 3 (2/11)</b>	<b>Internal Consistency and Job Analysis</b>  <b>Case:</b> Case, J. (2001). When Salaries Aren't Secret. Harvard Business Review. <a href="https://hbr.org/2001/05/when-salaries-arent-secret">https://hbr.org/2001/05/when-salaries-arent-secret</a> <b>Class Activity:</b> Job Analysis	<b>Chapter 6 (Internal Consistency, Job Analysis)</b>
<b>Week 4 (2/18)</b>	<b>Internal Consistency and Job evaluation</b>  <b>Class Activity:</b> Job Evaluation	<b>Chapter 6 (Job Evaluation and Techniques)</b>
<b>Week 5 (2/25)</b>	<b>Pay Policies and Compensation Survey</b>  <b>Case:</b> The \$70K CEO at Gravity Payments. Harvard Business School Case #9-816-010 <b>Class Activity:</b> Explore Market Compensation Survey Data	<b>Chapter 7</b>
<b>Week 6 (3/4)</b>	<b>From Compensation Survey to Pay structure</b>  <b>Class Activity:</b> Build a Pay Structure	<b>Chapter 8 (Constructing a Pay Structure)</b>

<b>Week 7 (3/11)</b>	<b>Seniority Pay, Merit Pay, Performance Evaluation</b>  <b>Case:</b> Performance Management at Vitality Health Enterprises, Inc. Harvard Business School Case #9-913-501	<b>Chapter 3, Chapter 8 (Designing Merit Pay Systems)</b>
<b>Week 8 (3/18)</b>	<b>Midterm Exam</b>	
<b>Week 9 (3/25)</b>	<b>Building Pay Structures that Recognize Employee Contributions: Incentive Plans</b>  <b>Case:</b> Performance Pay at Safelite Auto Glass (A). Harvard Business School Case # 800292-PDF-ENG	<b>Chapter 4</b>
<b>Week 10 (4/1)</b>	<b>Long-Term Incentive and Executive Compensation</b>  <b>Case:</b> Equity on Demand: The Netflix Approach to Compensation. Harvard Business School Case #CG19-PDF-ENG	<b>Chapter 11</b>
<b>Week 11 (4/8)</b>	<b>Employee Benefits</b>  <b>Class Activity:</b> Plan Your Retirement	<b>Chapter 9, Chapter 10</b>
<b>Week 12 (4/15)</b>	<b>Pay Structure Variations and Pay Strategy</b>  <b>Case:</b> Microsoft: Competing on Talent (A). Harvard Business School Case # 300001-PDF-ENG	<b>Chapter 5, Chapter 8 (Designing Person-Focused Pay, Pay Structure Variations)</b>
<b>Week 13 (4/22)</b>	<b>Course Review and Group Meetings</b>	
<b>Week 14 (4/29)</b>	<b>Group Presentation</b>	

### Course Policy

- You are expected to adhere to all of the rules pertaining to academic integrity outlined in the Student Code (<http://studentcode.illinois.edu/>). Failure to do so will result in an automatic F for the course.
- It is expected that each student will be courteous and respectful to all members of the class and will carry him or herself in an orderly manner for the entire duration of the course as outlined in the (<http://studentcode.illinois.edu/>).
- Regular class attendance and punctuality are expected.
- There will be a 20% grade reduction on any late assignments.

## **Special Accommodations**

If you have any condition, such as a physical or learning disability, which will make it difficult for you to carry out the work as it has been outlined or which will require special accommodations, please notify the instructor during the first week of the course with the appropriate written documentation. To contact the Division of Rehabilitation- Education Services (DRES), you may visit 1207 S. Oak St., Champaign, IL 61820, call (217) 333-1970, or email [disability@illinois.edu](mailto:disability@illinois.edu).