

**University of Illinois at Urbana-Champaign**  
**School of Labor and Employment Relations**  
**LER 561: Compensation Systems**  
**Spring 2020**

**Instructor:** Mengjie Lyu, Ph.D.  
Visiting Assistant Professor, LER  
**Schedule:** Tuesdays, 11:00am–1:50pm  
**Location:** LER 35  
**Office Hours:** By appointment  
**Office:** 231 LER Building  
**E-Mail:** mjlyu@illinois.edu

### **Course Description**

The goal of this course is to provide students with a solid understanding of employee compensation and benefits practices from the perspective of an HR generalist. The learning objectives include:

1. Place compensation practice in context – market forces, unions, and law.
2. Describe the practices for adjusting base pay.
3. Understand the structural elements of compensation system design – internal consistency, market competitiveness, and recognition of employee contributions.
4. Identify the compelling issues associated with employee benefits practices.
5. Discuss compensation issues for executives and expatriates.

Students will learn core compensation systems concepts and tools through lectures, assigned text readings, class participation, student class presentations, and participation in a semester-long team project.

### **Required Textbook**

- Martocchio, J. J. (2017). *Strategic Compensation: A Human Resource Management Approach* (9th edition) and *MyManagementLab*. Upper Saddle River, NJ: Prentice Hall.
- Barcelona, D. J., & Martocchio, J. J. *Building Strategic Compensation Systems: An Experiential Case*. Upper Saddle River, NJ: Prentice Hall.  
Note: Both items are bundled under ISBN-13: 9780134304212

### **Course Website**

- <https://compass2g.illinois.edu>.
- Supplemental readings, lecture notes, and useful resources will be posted there. Please check frequently for updates.

## **Course Policy**

- Please show respect for your classmates by limiting distractive behavior. Turn your cell phones off during class and please keep any side discussions short and quiet.
- You are expected to adhere to all of the rules pertaining to academic integrity outlined in the [Student Code](#). 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 [Student Code](#).
- Regular class attendance and punctuality are expected.
- There will be a 20 percent 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).

## Student Evaluation and Grading Scale

<i>Group project reports (3 at 100 points each):</i>	30%	(300 points)
<i>Students' presentation of a compensation issue:</i>	15%	(150 points)
<i>Quizzes (4 at 100 points each):</i>	40%	(400 points)
<i>Class participation and discussion:</i>	15%	(150 points)
<b>Total:</b>	<b>100%</b>	<b>(1,000 points)</b>

## Calculation of Course Grades

<b>Grade</b>	<b>Points</b>
A	95-100% of 1,000 points, and so on...
A-	91-94.9%
B+	87-90.9%
B	83-86.9%
B-	80-82.9%
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%

## Compensation Group Project: *Building Strategic Compensation Systems*

This experiential project is designed to provide you an opportunity to integrate and apply knowledge that you will learn in this course. Teams of approximately 5 class members will be established to complete this project that consists of three separate reports. The three reports and due dates are listed below (*to be submitted via Compass no later than 2pm on the due dates*):

Written Report 1: Strategic Analysis (February 17, one per team)  
Written Report 2: Internal Consistency (April 7, one per team)  
Written Report 3: Market Competitiveness (May 5, one per team)

Each team will serve as compensation experts who have been hired by the firm to develop an integrated compensation plan. An instructor's grade will be assigned to each report for each team. All team members will receive the same grade based on the instructor's evaluation.

Each part of the case builds uniquely on your answers to prior parts of the case. Each report should be written as recommendations to top management. One approach to developing the report is to identify and discuss decisions that must be made to meet the objectives. Each decision should be supported with rationale that is logical and based on the content presented within your texts. Identify plausible alternatives to your decisions, and discuss possible problems that may be encountered. *Each written report should be summarized in a one- to two-page executive summary at the front. This executive summary should contain the major objectives of the report and the corresponding major findings.*

Whenever possible, I will provide 20 to 30 minutes for teams to meet in class.

**The assignments will be posted on Compass on January 28.**

### Quizzes

**5 short quizzes** (20 minutes) will be given at random throughout the semester, of which the top 4 scores count toward your grade. The quizzes will be closed-book and closed-notes. To prepare for the quizzes, you need to read the assigned materials. The questions will be based on the key terms and the learning objectives stated in each class session. There will be **NO** make-up quizzes unless you have a university accepted reason (e.g., illness with a doctor's note).

**How should you prepare to answer questions?** *First*, read the assigned material. Some questions will be based on key terms, which are the words or terms highlighted in bold within the chapters. For instance, "Define pay ranges and pay grades." *Second*, be familiar with the learning objectives stated in each chapter. Within the chapters, the centered, all-capital letters headings correspond to learning objectives. Within the objectives, you will see secondary headings (left, mixed case). I might ask: Define two types of compensation policy decisions. The answer would be pay-level policies and pay mix policies, and you would briefly talk about each one.

## **Presentation of a Compensation Issue**

Students will make one presentation (15 to 20 minutes) on a compensation issue of your choice in combination of two or three students. Base your presentation on 2 or 3 articles from an HR practitioner publication (e.g., *WorkSpan*, published by WorldatWork and *HRMagazine*, published by the Society for Human Resource Management), business periodicals (e.g., *BusinessWeek*), or major newspapers (e.g., *New York Times*, *The Wall Street Journal*). Assume the role of an HR professional who is briefing his/her HR colleagues on a timely compensation topic. Following the presentation, please lead a class discussion. To lead a discussion, write two or three questions about the topic in the articles you presented. I will make random assignments of groups and presentation dates, and **you will receive the assignments on January 28.**

## **Class Participation and Discussion**

In each lecture, there will be a class activity in forms of in class exercise or group case discussion. You are expected to be actively involved in these activities and to express thoughts and insights during the class. You will also be cold-called to share your opinions. 5% of the total points will be assigned to participation in class discussion including answering and asking questions, which is based on class attendance. If you cannot attend class due to a university accepted reason, a notice via email will be appreciated. 10% will be assigned to participation in group activities including exercise and case discussion. Short summaries of the main conclusions need to be submitted by the end of the class.

## Course Outline and Schedule

	<b>Topics, Required Readings and Class Activity</b>
<b>Week 1 (1/21)</b>	<p><b>Course Overview, Introduction to Strategic Compensation</b></p> <ul style="list-style-type: none"> <li>- <i>Strategic Compensation</i>: Chapter 1</li> <li>- Pfeffer, J. Six dangerous myths about pay. Harvard Business Review, 1998, May-June, 109-19.</li> </ul>
<b>Week 2 (1/28)</b>	<p><b>Theories and Contextual Influences on Compensation Practice</b></p> <ul style="list-style-type: none"> <li>- <i>Strategic Compensation</i>: Chapter 2</li> <li>- Gerhart, B., Minkoff, H. B. &amp; Olsen, R. N. (1995). Employee compensation: Theory, practice, and evidence (CAHRS Working Paper #95-04), <a href="http://digitalcommons.ilr.cornell.edu/cahrswp/194">http://digitalcommons.ilr.cornell.edu/cahrswp/194</a>.</li> </ul> <p><b>Class activity: FLSA Compliance Exercise</b></p>
<b>Week 3 (2/4)</b>	<p><b>Building Internally Consistent Compensation Systems: Internal consistency and job analysis</b></p> <ul style="list-style-type: none"> <li>- <i>Strategic Compensation</i>: Chapter 6</li> </ul> <p><b>Class Activity: Job Analysis Exercise</b></p>
<b>Week 4 (2/11)</b>	<p><b>Building Internally Consistent Compensation Systems: Internal consistency and Job evaluation</b></p> <ul style="list-style-type: none"> <li>- <i>Strategic Compensation</i>: Chapter 6</li> <li>- Case: The \$70K CEO at Gravity Payments. Harvard Business School Case #9-816-010</li> </ul> <p><b>Class Activity: Job Evaluation Exercise</b></p>
<b>Week 5 (2/18)</b>	<p><b>Building Market-Competitive Compensation Systems: define competitiveness and pay policies</b></p> <ul style="list-style-type: none"> <li>- <i>Strategic Compensation</i>: Chapter 7</li> <li>- Case: Equity on Demand: The Netflix Approach to Compensation. Harvard Business School Case #CG19-PDF-ENG</li> </ul> <p><i>(WRITTEN REPORT 1 IS DUE ON FEBRUARY 18)</i></p>
<b>Week 6 (2/25)</b>	<p><b>Building Market-Competitive Compensation Systems: compensation survey and pay structure</b></p> <ul style="list-style-type: none"> <li>- <i>Strategic Compensation</i>: Chapter 7 and Chapter 8 (pp171-179, pp192-195)</li> </ul> <p><b>Class activity: Compensation survey</b></p>

<b>Week 7 (3/3)</b>	<b>In Class Work on Group Project</b>
<b>Week 8 (3/10)</b>	<b>Traditional Bases for Pay: Seniority pay, Merit pay, Performance evaluation</b> <ul style="list-style-type: none"> <li>- <i>Strategic Compensation</i>: Chapter 3 and Chapter 8 (pp179-185)</li> <li>- Buckingham, M. and Goodall, A., Reinventing Performance Management. Harvard Business Review, 2015, April.</li> <li>- Case: Performance Management at Vitality Health Enterprises, Inc. Harvard Business School Case #9-913-501</li> </ul>
<b>Week 9 (3/17)</b>	<b>Spring Break</b>
<b>Week 10 (3/24)</b>	<b>Building Pay Structures that Recognize Employee Contributions: Incentive plans</b> <ul style="list-style-type: none"> <li>- <i>Strategic Compensation</i>: Chapter 4 and Chapter 8 (pp185-189)</li> <li>- Case: Marshall &amp; Gordon: Designing an Effective Compensation System (A) Harvard Business School Case #9-411-038</li> </ul>
<b>Week 11 (3/31)</b>	<b>Person focused pay and compensation management</b> <ul style="list-style-type: none"> <li>- <i>Strategic Compensation</i>: Chapter 5 and Chapter 8 (pp189-192)</li> </ul> <b>Class activity: Compensation management exercise</b>
<b>Week 12 (4/7)</b>	<b>Employee benefits</b> <ul style="list-style-type: none"> <li>- <i>Strategic Compensation</i>: Chapter 9 and Chapter 10</li> <li>- Case: Pitney Bowes: Employer Health Strategy. Harvard Business School case #5-709-483</li> </ul> <p>(WRITTEN REPORT 2 IS DUE ON APRIL 7)</p>
<b>Week 13 (4/14)</b>	<b>Compensation of special groups</b> <ul style="list-style-type: none"> <li>- <i>Strategic Compensation</i>: Chapter 11, 12 and 13</li> <li>- Case: Sales Misconduct at Wells Fargo Community Bank. Harvard Business School case # 118009-PDF-ENG</li> </ul>
<b>Week 14 (4/21)</b>	<b>In Class Work on Group Project</b>
<b>Week 15 (4/28)</b>	<b>Course Review</b> <p>(WRITTEN REPORT 2 IS DUE ON May 5)</p>