

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

Instructor: Mengjie Lyu, Ph.D.
Visiting Assistant Professor, LER
Schedule: Thursdays, 8:00am–10:50am Central Time (August 26–December 2)
Location: Room 53, LER Building
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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, support the organization’s strategy and culture, etc.

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

Course Objectives

- Introduce the pay model and the structural elements of compensation system design-internal consistency, market competitiveness, and recognition of employee contributions.
- Place compensation practice in context – market forces, unions, and law.
- Discuss the underlying reasons of wage differentials.
- Introduce the practices of adjusting base pay and pay structure.
- Discuss the practices of pay for performance plans.
- Identify the compelling issues associated with the development of benefits programs.
- Discuss compensation issues for special employee groups

Student Learning Outcomes

By the end of this course, students should be able to manage, evaluate, and design compensation plans that

- Are internally consistent
- Are externally competitive

- Can recognize employees' contributions
- Are complete with pay level and pay mix designs
- Support the organization's strategy
- Are compliant with laws and regulations

This course consists of lectures, in class activities, case discussions, and presentations. Course grades will be based on weekly quizzes, an individual presentation of a compensation topic, a group course project including project report and group presentation, and in-class exercises and discussion participation.

Required Textbook and Readings

- Martocchio, J. J. *Strategic Compensation: A Human Resource Management Approach* (9th or 10th 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 Canvas. Please check regularly for updates.

Course Evaluation and Grading Scale

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

Calculation of Course Grades

Grade	Points
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 **October 15 (week 8)** during the class-time and it will be administered on the course Canvas page. The major purpose of the exam is to ensure your mastery of important concepts, principles and theories in this course. The exam will be open book and open note, and the 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 approximately 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/job families from beginning to end. Your group representative is required to post your team’s choice of the company and the department/team/job family on Canvas no later than **September 30, 2021**.

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 **December 10, 2021**. The presentation is scheduled in **Week 15 (December 2, 2021)**. A detailed instruction including the specific requirements, report structure, and grading rubric will be provided on Canvas.

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 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 4 class members will be established to work together in each activity. You will submit the responses through Canvas and may make a presentation to the class. Some in-class exercises require after-class time to complete, and will be assigned as homework and the due dates will be announced in class.

Weekly Review Questions (10%)

Review questions will be given to facilitate students’ understanding on the assigned readings and

the specific compensation topic. Questions on the assigned readings will be posted as a short quiz every week on the course Canvas page. The quizzes are open book and due at the start of the class. The lowest score will be dropped.

Individual Presentation of a Compensation Issue (10%)

Starting from Week 2, each week 2-3 students will give an individual presentation on a compensation issue of your choice. You can base your presentation on article(s) from an HR practitioner publication (e.g., *WorkSpan*, published by WorldatWork and *HRMagazine*, published by the SHRM), business periodicals (e.g., *BusinessWeek*), major newspapers (e.g., *New York Times*, *The Wall Street Journal*), or an academic journal. You can also base the presentation on the reading materials of your assigned week. The presentation should not exceed 5 minutes. Following the presentation, please lead a class discussion based on two questions.

We will have a discussion board on the course Canvas page as a supplemental communication method to collect presentation summaries, comments, and questions. Please post a short summary of the presentation and the links of the news/research articles on the discussion board by 12pm on the Tuesday of your assigned week. Please also submit the slides on Canvas after the presentation. Grades will be given based on the summary posted (2%), the presentation (5%) and the class discussion lead after the presentation (3%).

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, facilitating the class discussion, speaking as the representative of the discussion group.

Course Policies

The University of Illinois “Academic Integrity-All Students” policy in the Code of Policies and Regulations Applying to all Students applies to this course and will be strictly enforced. Adhering to the highest academic integrity standards is expected from all students in this course. Violations of academic integrity will result in appropriate penalties.

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/>.

There will be a 20 percent grade reduction on any late assignments.

University Resources

Request for Special Accommodations

To obtain disability-related adjustments and/or auxiliary aids, students with disabilities should contact the course instructor and the Disability Resources and Educational Services (DRES) as soon as possible. To contact DRES, you may visit 1207 S. Oak Street, Champaign; call 217.333.4603; email disability@illinois.edu ; or go to the DRES website, <http://disability.illinois.edu> . Please also schedule a private meeting with the course instructor to discuss your needs and requirements. Please note accommodations are not retroactive to the beginning of the semester but begin the day you contact your professor with a current letter of accommodation from DRES.

Writing Resources

The UIUC's Center for Writing Studies provides free workshops and writing assistance. The Writers Workshop's mission is to support the University of Illinois community by providing free writing assistance for students, faculty, and staff from all disciplines and at all stages of the writing process. The Workshop has multiple locations and offers both face-to-face and online tutoring. Find more information at <https://writersworkshop.illinois.edu/>.

Support Resources and Supporting Fellow Students in Distress

As members of the Illinois community, we each have a responsibility to express care and concern for one another. If you come across a classmate whose behavior concerns you, whether in regards to their well-being or yours, we encourage you to refer this behavior to the Student Assistance Center (333-0050) or online at <https://odos.illinois.edu/community-of-care/referral/> . Based upon your report, staff in the Student Assistance Center reaches out to students to make sure they have the support they need to be healthy and safe.

Further, as a Community of Care, we want to support you in your overall wellness. We know that students sometimes face challenges that can impact academic performance (examples include mental health concerns, food insecurity, homelessness, personal emergencies). Should you find that you are managing such a challenge and that it is interfering with your coursework, you are encouraged to contact the Student Assistance Center (SAC) in the Office of the Dean of Students for support and referrals to campus and/or community resources.

Course Outline and Schedule

	Topics and Class Activity (Supplemental readings will be posted on Canvas)	Text
Week 1 (8/26)	Course Overview, Introduction to Strategic Compensation Case: Lincoln Electric	Chapter 1
Week 2 (9/2)	Theory and Contextual Influences on Compensation Practice Case: Impact of Legislation	Chapter 2
Week 3 (9/9)	Internal Consistency: Job Analysis Class Activity: Job Analysis	Chapter 6 (Internal Consistency, Job Analysis)
Week 4 (9/16)	Internal Consistency: Job evaluation Class Activity: Job Evaluation	Chapter 6 (Job Evaluation and Techniques)
Week 5 (9/23)	External Competitiveness: Pay Policies and Compensation Survey Case: The \$70K CEO at Gravity Payments. Harvard Business School Case #9-816-010 Class Activity: Explore Market Compensation Survey Data	Chapter 7
Week 6 (9/30)	External Competitiveness: Pay structure Class Activity: Build a Pay Structure	Chapter 8 (Constructing a Pay Structure)
Week 7 (10/7)	Recognizing Employee Contributions: Seniority Pay, Merit Pay, Performance Evaluation Case: Performance Management at Vitality Health Enterprises, Inc. Harvard Business School Case #9-913-501	Chapter 3, Chapter 8 (Designing Merit Pay Systems)
Week 8 (10/14)	Midterm Exam	
Week 9 (10/21)	Pay Structure Variations and Pay Strategy Class Activity: Group meetings	Chapter 5
Week 10 (10/28)	Recognizing Employee Contributions: Short-Term incentive Plans	Chapter 4

	Case: WrapItUp: Developing a New Compensation Plan. Harvard Business School Case # 4362-PDF-ENG	
Week 11 (11/4)	Recognizing Employee Contributions: Long-Term Incentive and Executive Compensation Case: Equity on Demand: The Netflix Approach to Compensation. Harvard Business School Case #CG19-PDF-ENG	Chapter 11
Week 12 (11/11)	Employee Benefits Class Activity: SAS Institute: A Different Approach to Incentives and People Management Practices in the Software Industry. Harvard Business School Case # HR6-PDF-ENG	Chapter 9, Chapter 10
Week 13 (11/18)	Course Review and Group Meetings	
Week 14 (12/2)	Group Presentation	