Discussion Questions

1. According to a 2010 study by economists Angus Deaton and Nobel Prize winner and psychologist Daniel Kahnerman, "High incomes doesn't bring you happiness.... [T]he further a person's household income falls below $75,000, the unhappier he or she is. But no matter how much more than $75,000 people make, it doesn't bring them any more joy." Do you agree with their conclusion or with the conclusion in Discussion Case 10.1? Explain.[80] Do you agree? How do you explain these results?
2. Several companies are moving in the direction of compensating employees with nonmonetary rewards in lieu of higher wages (see the Manager's Notebook, "Rewarding Employees with Nonmonetary Compensation"). Why do you think this is happening? Do you think this is a good thing for companies and employees? Explain.
3. In a feisty response to critics who accuse Wal-Mart of providing poverty-level wages (around $9.68 an hour, on average) and few benefits, Wal-Mart chief executive H. Lee Scott, Jr., said Wal-Mart offered good, stable jobs, noting that when it opens a store, more than 3,000 people often apply for 300 jobs. "It doesn't make sense," Mr. Scott said, "that people would line up for jobs that are worse than they could get elsewhere, with fewer benefits and less opportunities."[81] Based on what you learned in this chapter, do you agree with Mr. Scott's assessment? Explain.
4. One observer argues that external equity should always be the primary concern in compensation, noting that it attracts the best employees and prevents the top performers from leaving. Do you agree?
5. Go to any of the salary survey sources listed in the Manager's Notebook, "How Much Is a Position Worth in the Marketplace?" and research the salary ranges of four to five positions of your choice. Assume that you are planning to recruit five individuals into each of those positions. How would you use the salary survey data to arrive at a specific offer? Explain.
6. Go to the Manager's Notebook, "Tips for Managing Compensation in the Small Family Firm." What are the main problems a small family-owned firm is likely to encounter when designing a compensation system that involves both family and nonfamily employee? Do you agree that the recommendations listed in the Manager's Notebook are realistic for the typical family-owned firm? Explain.
7. As noted in the Manager's Notebook, "Compensation Entitlements Are Going out the Window," fixed or secure pay is becoming rare. What impact do you think this has on employees' outlook? What, if any, are the negative and positive aspects of this trend? Explain.
8. Do you think a company should keep pay secret and demand that all employees not disclose their pay to coworkers? Why or why not?

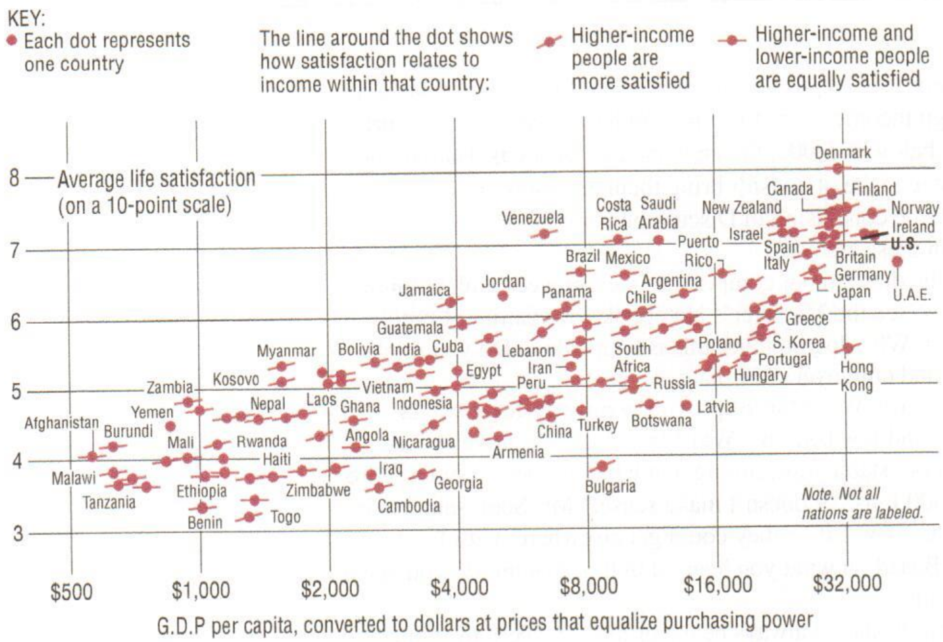
Case 10.1 Discussion

Money Doesn't Buy Happiness. Well, on Second Thought...

If money can't buy you love, can it still buy you happiness? A now-famous 1974 study seemed to indicate that the answer was *no.* U.S. economist Richard Easterlin, then at the University of Pennsylvania, studied comparative data on moderately wealthy and very wealthy countries and concluded that although rich people are happier than poorer people, rich countries are *not* happier than poorer ones, and they do *not* grow happier as they grow increasingly rich. The explanation for this apparent paradox, said Easterlin, was that only relative income—your income compared to that of your peers and neighbors—matters to happiness, not absolute income.

Now, however, two Wharton professors, Betsey Stevenson and Justin Wolfers, say that the Easterlin paradox, as it has came to be called, does not exist. Based on new research, they say that the truth isn't paradoxical at all, but is in fact very simple: "1. Rich people are happier than poor people. 2. Richer countries are happier than poorer countries. 3. As countries get richer, they tend to get happier."

Pointing out that 35 years ago Easterlin had little data to work with, Stevenson and Wolfers draw their conclusions from data about more countries, including poor ones, over longer periods of time. Public opinion surveys and other studies show that life satisfaction is highest in richer countries. In the United States, for instance, 9 in 10 Gallup Survey respondents in households making more than $250,000 a year called themselves "very happy," compared to only 4 in 10 with incomes below $30,000. "On balance," Stevenson and Wolfers conclude, "GDP and happiness have tended to move together." The bottom line, they say, is that absolute income matters.



Source: Betsey Stevenson and Justin Wolfers, Wharton School at the University of Pennsylvania. Reprinted with permission by the authors.

What do these new findings mean in practice? A pair of British economists suggest that government's policy goals should focus less on growing GDP and more on improving measures that directly affect happiness.

Easterlin would probably agree. He now concedes that people in wealthy countries do report more happiness than those in poorer countries. But he still doubts that money alone is the reason. Comparing Denmark and Zimbabwe, for instance, he says, "The Danes have social welfare policies directed toward some of the most salient concerns of families—their health, care for the aged, child care. If you ask why the Danes are happier, an alternative hypothesis is they have a set of public policies that deal more immediately with people's fundamental concerns."

And the tiny Himalayan kingdom of Bhutan has, in fact, replaced GDP with a measure it calls "gross national happiness."

Critical Thinking Questions

1. What do you think is the role of money as a determinant of a person's satisfaction at work and with life in general? Should organizations worry about this issue? Explain.
2. As discussed in this chapter, firms vary widely on the extent to which they emphasize money as an incentive. Do you think an emphasis on financial incentives is good or bad? Explain.
3. For the past 90 years or so, job evaluation as a compensation tool has been designed to assess the value of each job rather than to evaluate the person doing the job, prompting a relatively flat pay schedule for all incumbents in a particular position. Some HR experts believe that the emerging trend is for pay inequality to become "normal." Employers are using variable pay to lavish financial resources on their most prized employees, creating a kind of corporate star system. "How do you communicate to a workforce that isn't created equally? How do you treat a workforce in which everyone has a different deal?" asks Jay Schuster of Los Angeles–based compensation consultants Schuster-Zingheim & Associates, Inc. If you were asked these questions, how would you answer them? Given the issues just discussed in this case, what effect do you think this trend toward greater pay inequality will have on employees' satisfaction with their pay, their job, and life in general? Explain.

Team Exercise

The HR director of a large manufacturing plant has called a meeting of several divisional managers to come up with a plan on how to explain to employees that their annual cash bonus will be zero this year, down from an average of $10,000 last year. The HR director is concerned because 10 percent of employees received huge bonuses this year amounting to 25 percent of base pay, even though the rest received no bonus. In addition, many employees believe that while they have been penalized by the ups and downs of variable pay, most executives are insulated from risk and some have even received special stipends. Students divide into groups of five to role-play this situation. First, they should discuss the implication this is likely to have on employee satisfaction with their pay, their jobs, and life in general. Second, they should discuss what repercussions, if any, this inequity is likely to have for the firm. Finally, the team should develop a plan for explaining to employees why this is happening.

Experiential Exercise: Team

One student will role-play a 45-year-old passenger airline pilot whose take-home pay will drop by 15 percent and whose health insurance premium will increase by 20 percent due to budget cuts. Although making more than six figures a year, the pilot feels that being asked to pay for things that can't be controlled is unfair. Another student will role-play an airline executive who will defend the airline's position. Both sides will role-play in front of the class for approximately 15 minutes. The instructor will then moderate an open class discussion.

Experiential Exercise: Individual

Would you conclude that an organization that offers greater pay improves employee satisfaction with their pay, their job, and life in general? Review the papers by Easterlin and Stevenson and Wolfers and discuss which of the two positions seems most reasonable to you and the implications this has for compensation.

Sources: Based on Rowley, L. (2011). Money & Happiness, *www.moneyandhappiness.com*, Investing Strategy. (2009, March 4). Does Money Make You Happier? *www.fool.co.uk*; Vendantam, S. (2008, June 23). "Finanical hardship and the happiness paradox." *The Washington Post, www.washingtonpost.com,* June 23, 2008; Wolfers, J. (2008, April 16). The Economics of happiness, part 1: Reassessing the Easterlin paradox. *New York Times, http://freakonomics.blogs.nytimes.com*. Leonhardt, D. (2008, April 16). "Maybe money does buy happiness after all," *New York Times, www.nytimes.com*. Caulkin, S. (2008, March 9). "Cutting the Payroll Means Unhappy Dividends," *The Guardian, www.guardian.com.uk*. Casey, E. (2008). *Empowering Women, 3*(1), 26–29; Easterlin; Stevenson and Wolfers.

Case 10.2 HR in Small Business

David Versus Goliath: Compensation in Small Versus Large Firms

Most small businesses cannot pay high salaries to attract, retain, and motivate employees. One way to compete in the labor market is for small businesses to be thought of as a great place to work. Hence employees may be willing to sacrifice high pay elsewhere in order to work there. Consider the following examples:

- Like many marketing agencies, Dixon Schwabl (85 employees) has followed the trend of creating a more nontraditional work environment for its staff. Based in Rochester, New York, the company built its $3.5 million office from the ground up, incorporating design ideas from a survey of employees who were given 72 hours to come up with a wish list for their ideal work environment. The result is a space that features a koi pond, a pair of waterfalls, a slide that employees can take from floor to floor instead of the stairwell, a fireplace, faux-finish walls covered in quirky artwork, contemporary furniture, and a padded primal scream room. But what struck founder and CEO Lauren Dixon the most about her employees' request were the little things. "You'd be surprised by how many people said that they simply wanted windows that they could open, nontraditional lighting or even just walls that aren't painted white," Dixon says.
- Radio Flyer (55 employees) has been one of America's most beloved brands of children's toys for almost a century. Senior management attributes its success to the company's "forever young" philosophy toward the work environment. Employees at the Chicago-based company are reminded of that philosophy every morning as they pass by the World's Largest Wagon on their way to the front door. "We allow our people to play at work," human resources director Amy Bastuga says. "We like to warn people in interviews that if you're going to get annoyed by people shooting Nerf guns over your head, then this probably isn't the place for you."
- Located a few blocks from Rice University in a nondescript, low-rise office building, Bridgeway Capital Management (33 employees) is in many ways the antithesis of the modern stereotype of financial investors. That's due in no small part to the fact that the company gives 50 percent of its net profits to charity. "We keep a close watch on expenses, and since half our profits go to supporting amazing causes, we spend minimally on aesthetics," marketing communications director Tony Ledergerber says. "In the industry of *investment management*, this is unique and a daily reminder to not be wasteful when there is so much need in the world around us." To put this into perspective, Ledergerber says that the most unique thing about the Houston office is the countless volunteer fliers, thank-you letters, and announcements from nonprofit organizations around the world that decorate its walls.
- McMurry (179 employees) is a marketing and public relations firm that has kept up with the trend of creating a hip, contemporary work environment. When employees walk into the atrium of the main office in Phoenix, the first details they see are a large European fountain; an assortment of plant life; vaulted ceilings; and an electronic marquee that frequently displays welcome messages, project announcements, and birthday wishes for staff members. Once inside, employees enjoy the comforts of what has been dubbed the town center, a common area that features contemporary furniture, free weights, a foosball table, a Nintendo Wii, a large-screen television that descends from the ceiling on movie days, and a popcorn machine. Instead of cubicles, team members work together in pods or collaborative spaces that house up to six people, and employees can choose which pods they want to work in.
- Torch Technologies (60 employees) established Torch Helps, a philanthropic program that is employee-funded and employee-administered. Most donations come through payroll deductions, and about 70 percent of staff members contribute. Employees nominate the charities, which are invited to submit detailed applications. A charity review committee then kicks each applicant's tires using the Better Business Bureau's standards of accountability. Every quarter, Torch Helps posts summaries of qualifying applications on its Web site and encourages all employees who contributed time and money to vote for their favorite. The winning organization receives a $10,000 grant, presented at a formal luncheon. Recent recipients include a service that outfits homes with handrails and wheelchair ramps for the elderly and one that helps ease wounded soldiers back into the community. Torch Helps also doles out grants of $500 or less throughout the year and coordinates employee volunteer opportunities, such as construction work for Habitat for Humanity and gift deliveries to the homebound at Christmas.