Instructors: Professor Alan Benson  
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Class Location: Carlson 2-213  

Class Hours: Mondays and Wednesdays, 3:45 PM – 5:25 PM  

Office Hours: Wednesdays, 12:30-1:30 PM, or by appointment  
Carlson 3-300RR  

Required Materials: Course reader (you must purchase this, as it includes case studies and exercises we use in class)  

Suggested Materials: Milkovich, Newman, and Gerhart (MNG). Compensation (11th ed.). The textbook is highly suggested. For the price conscious, you are welcome to purchase prior editions, rent it, or borrow it from the HRIR library.  

Course Objectives  

Building organizations capable of pursuing a business strategy requires attracting, enabling, motivating, and retaining a workforce. Compensation plays a key role in each of these regards.  

While the technology is making it simple to automate routine administrative tasks, getting compensation systems right is hard. That’s because compensation serves many purposes—it allows firms to compete in labor markets, it serves to business strategy, it conforms to internal structures, and it motivates individuals. It interacts in complex ways with the politics, culture, and practices of organizations.  

By the end of the course, you should be able to evaluate, design, and modify compensation plans that:  

- are informed by external market competition, internal structures, and job characteristics
• support and build upon an organization’s strategy
• complement other management practices
• comply with federal and state laws

For each, you should be able to draw upon your experience with specific cases.

Teaching Methods and Professional Standards

In the typical week, we will cover one topic; the first half is devoted to material, and the second half is devoted to a case study that complements the lecture. For the benefit of the class, please keep the following professional standards in mind:

• **Preparation.** Group discussions are the cornerstone of the class. I believe that analyzing interesting cases through interactive classes are the best way to get familiar with the broader skills required to master compensation levers as part of a general HR strategy. We all have a responsibility to ourselves and to each other to be well-prepared for every class. Please read all course materials carefully and be prepared to contribute your perspective.

• **Ethics.** Lastly, I expect students to lead and act ethically. If you have any questions, please refer to the Minnesota Student Code of Conduct at goo.gl/uYvqW and the Carlson School Honor Code at http://goo.gl/yT3LvM.

Grading and Deliverables

Grades are based on four items, each worth 25% of the grade: Quiz 1, Quiz 2A, Quiz 2B, and participation. To prepare, you should review both the material in the course, prior cases, and the Marshall and Gordon case.

• **Quiz 1** (in the first half of class) will cover pay determination. It is two hours long and covers all material from Module 1 on pay determination (Weeks 1-8), plus a new case (Marshall and Gordon).

• **Quiz 2** (in the second half of the class) will cover all material. To prepare, you should review all prior course material and the issues arising in prior cases.
  - Part A is 90 minutes long and asks you to analyze prior cases in new ways. It will be open book, no internet, and there will not be enough time to re-read all materials thoroughly.
  - Part B is 90 minutes long and tests for familiarity with terminology and concepts. It is closed book and no internet.

• Preparation and participation are class norms (particularly for case studies), and are also graded. M1 participation is worth 10%, M2 participation is worth 10%, and M3 participation is worth 5%. You get 75% of the total participation credit (i.e. 15% of the
20%) for classroom citizenship in small group exercises, and the remainder are for sharing your thoughts. The negotiation memorandum is due Friday of the last week of class. The negotiation memorandum should feature (i) your negotiation notes, (ii) what worked well in your negotiation, and (iii) what you would do differently.

I hope you will feel the classroom offers an environment conducive for interaction. If you are not comfortable speaking during lecture, you may opt to be graded primarily on two supplementary assignments. First, please e-mail me your notes on all case exercises, in a highly clean and presentable manner. Second, present your analysis of an article related to compensation (e.g. from WorldatWork, HBR, HR Magazine, or Sloan Management Review). You can submit a hard copy of the article and your one-page reaction paper to me the Friday of the last week of class. If you choose this option, I still encourage you to participate in class to your fullest ability and to submit the negotiation memorandum.

**Careers in Compensation**

All of your careers will involve compensation in some form—you will weigh and negotiate your pay, elect your benefits, pursue your incentives, evaluate your position in the labor market, and so on. Many of you will also take HR generalist and management roles that will deal with compensation. And some of you will eventually become compensation specialists.

I’m always available to speak to students about career advice. If you’re interested in making a career in compensation, I’m happy to help share my thoughts and connect you with a complimentary membership with the compensation professional association WorldatWork.
Class Schedule

Module 1: Base Pay and Short Term Incentives

Module 1 covers the first two elements of the pay mix: base pay and STIs.

Week 1: Introduction

Learning Objectives

- How compensation fits into HR strategy and business strategy
- The role of a compensation and benefits professional
- The employee value proposition, total compensation, the pay mix, and other key terms.

Readings

- Case: Lincoln Electric (HBS 9-376-028)
- MNG Chapter 1 (Introduction)

Week 2: Job Analysis

Learning Objectives

- Mechanics of job analysis, benchmarking, and establishing a pay structure
- Points-based and compensable factor methods
- Using regression to adjust pay from market benchmarks

Readings:

- Lincoln Electric, continued
- MNG Chapter 4 (Job Analysis)
- Video: “Total Rewards Perspective: Best Practices” (WorldatWork)
- Society of Human Resource Management’s “Designing a Pay Structure”
Week 3: Market Benchmarking

Learning Objectives

- The components of labor supply and demand affecting pay and forecasts
- How the portability of skills affect pay and retention
- Benchmarking and adjusting pay from compensation surveys

Readings

- Case: Southwest Airlines (Stanford GSB Case HR-1A)
- MNG Chapter 7 (Defining Competitiveness)
- Workspan Article, “Making Salary Surveys Work for You”

Week 4: Pay Structure

Learning Objectives

- Balancing internal equity, market competitiveness, and individual recognition
- Weigh the benefits of market versus points based approaches

Readings

- Case: Megalith Inc. (HBS 476-107)
- MNG Chapter 5 (Job-Based Structures and Job Evaluation)
- MNG Chapter 8 (Designing Pay Levels, Mix, and Pay Structures)
- Society of Human Resource Management’s “Designing a Pay Structure”
- Video: WorldatWork’s “An Overview of Market Pricing” (http://goo.gl/xIymvt)

Week 5: Performance Evaluation

Learning objectives

- Best practices for balancing the judgment and coaching in evaluations
- Linking and decoupling evaluations to pay (directly or indirectly)

Readings

- Case: Compensation and Performance Evaluation at Arrow Electronics (HBS 9-800-290)
- MNG Chapter 11 (Performance Appraisals)
- Conducting a Performance Appraisal Interview (HBS: 9-497-058)
Week 6:  FLSA and Compliance

Learning objectives

- Pay compliance legal framework
- Firms’ statutory requirements for pay (e.g. FLSA, FMLA, Equal Pay)
- New developments (e.g. Lilly Ledbetter, Say on Pay)

Readings

- Case: The Slade Plating Department (HBS 9-496-018)
- MNG Chapter 14 (Compensation of Special Groups) except executives section
- MNG Chapter 17 (Government and Legal Issues in Compensation)

Week 7:  STIs and Pay for Performance

Learning objectives

- What makes jobs good candidates for short-term incentives (STIs), versus base pay
- The design elements of a pay for performance plan, and their purposes
- What makes jobs good candidates for team, individual, or tournament-based pay

Readings

- Case: Performance Pay at Safelite Auto Glass (HBS 9-800-291)
- MNG Chapter 9 (Pay for Performance: The Evidence)
- MNG Chapter 10 (Pay for Performance Plans)
- Video: WorldatWork’s “Pay For Performance Part 2- The Success of Plans” (http://goo.gl/pajlxG)

Week 8:  Quiz 1 Review and Quiz 1

See grading section for details.

- Exam case: Marshall and Gordon (HBS 9-411-038)
Module 2: Total Rewards, LTIs, and Benefits

Module 2 covers Total Rewards, pay strategy, LTIs, and benefits.

Week 9: Total Rewards

Learning Objectives

- Total Rewards framework
- Money, Mix, and Messaging

Readings

- Case: Guest Speaker David Strauss, SVP of Total Rewards and United Health Group
- MNG Chapter 2 (Strategy: The Totality of Decisions)
- HBR Article, “Why ‘Good Jobs’ are Good for Retailers.”

Week 10: LTIs and Executive Compensation

Learning objectives

- The administrative principles and strategic use of long-term incentives (LTIs), such as stock grants, employee stock purchase plans (ESPPs), employee stock options (ESOPs), and deferred compensation
- The principles of executive compensation

Readings

- Case: Netflix (Stanford GSB Case CG-19)
- NPR Planet Money Pod Cast, “Hard work is irrelevant”
- MNG Chapter 14 (Compensation of Special Groups) executives section only

Week 11: Benefits, Health, and Pensions

Learning objectives

- Statutory and fringe benefits
- Defined Benefit and Defined Contribution Plans
- Investment vehicles and ERISA requirements
- Components of the Patient Protection and Affordable Care Act (PPACA)

Readings
• Case: Travelers (with guest speaker John Clifford)
• MNG Chapter 12 (Benefit Determination Process)
• MNG Chapter 13 (Benefit Options)

Week 12: Pay Strategy

• Linking business strategies, key success factors, and compensation design elements
• Synergies between compensations practices, business strategies, and other HR practices
• Strategic use of the pay mix
• Money, Mix, Messaging

Readings

• Case: Microsoft: Competing on Talent (HBS 9-300-001)
• Review for Quiz 2

Week 13: Quiz 2

See grading section for details.
Module 3: Key Interpersonal Skills for Compensation Administration

The third and final module examines key professional skills for compensation administration.

Week 14: Creating Value with Pay and Benefits

Learning objectives

- Interest-based approaches to total rewards and compensation packages
- Negotiating compensation plans that create value for the company and employees

Readings:

- Case: Name Your Price: Compensation Negotiation at Whole Health Management (HBS 908-064)

Week 15: Compensation Negotiation and Course Review

Learning objectives

- Apply negotiations concepts and criteria of compensation determination to negotiations
- Key negotiations concepts, particularly: interests, criteria, options, and alternatives

Readings

- Case: Diego Primadonna
- Please submit the following via the Moodle Dropbox: (i) pre-class preparation notes, (ii) what worked well, and (iii) what you would do differently.
STATEMENT ON COURSE REQUIREMENTS

1. The instructor will determine the conditions, if any, under which an "Incomplete" will be assigned instead of a grade. The instructor may set dates and conditions for makeup work, if it is to be allowed.

2. A student may not negotiate the submission of extra work in an attempt to raise his or her grade unless the instructor has made such opportunities available to all students.

3. Academic misconduct is a very serious issue with potential consequences ranging from failure in the course in question to dismissal from the University. Academic misconduct is defined broadly as any act that violates the rights of another student in academic work or that involves misrepresentation of your own work. This includes (but is not limited to) cheating on assignments or examinations; plagiarizing, which means representing as your own work any part of work done by another; submitting the same paper, or substantially similar papers, to meet the requirements of more than one course without the approval and consent of all instructors concerned; depriving another student of necessary course materials; or interfering with another student's work. Instructors may define additional standards beyond these.

4. Carlson School students are expected to understand and uphold the Carlson School Code of Conduct. Any violation of the Code of Conduct will not be tolerated and appropriate action will be taken.

5. Students with disabilities that affect their ability to participate fully in class or to meet all course requirements should bring this to the attention of the instructor during the first week of class so that appropriate accommodations can be made. Similarly, students for whom English is not their native language may request accommodation (such as additional time for examinations).

6. Student complaints or concerns about some aspect of a course sometimes arise. If possible, it is hoped that these can be resolved through an informal meeting between student and instructor. However, if a student feels this is not feasible, or if such discussion does not remedy the problem, the student may consult with the Director of Graduate Studies in 3-300 Carlson School of Management (if a graduate student) or the Director of the Industrial Relations Center, also in 3-300 Carlson School of Management (if an undergraduate student).

7. University policy prohibits sexual harassment. Copies of the University policy on sexual harassment are available at 419 Morrill Hall. Complaints about sexual harassment should be reported to the University Office of Equal Opportunity at 419 Morrill Hall.

8. Materials for this course are available in alternative formats upon request. Please contact the Director of Graduate Studies, 3-300 Carlson School of Management, (612) 624-2500.