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Abstract
We report our experiences of teaching compensation management using two short case studies that we developed to help students examine key concepts in an integrated manner. We note that cases anchored in the socio-economic context can evoke deeper discussions due to participants' contextual familiarity. We also highlight the role of instructors in directing class discussions to relevant themes in a creative manner so that participants can see less obvious issues and interconnections among issues.
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Introduction

Management of executive compensation is one of the courses that students of business take while specializing in Human Resource Management in Indian business schools. Instructors teaching this course often face the challenge of making the discussions meaningful and interesting for students. Even though exercises can make concepts and models "come alive" for the students of compensation management (Renard, 2008: 249), not many such exercises are available (Miller, 1999; Renard, 2008). Textbooks such as Henderson (2006) or Milkovich and Newman (2005) do contain useful exercises and review questions that help students learn individual concepts related to executive compensation. However, these end-of-chapter exercises and review questions were often not effective in exposing the students to the tradeoffs faced while deciding executive compensation, considering the inter-related nature of various concepts. We found that isolated thinking about a concept often misled students and did not facilitate the understanding of complexities involved in a seemingly innocuous course of action. To illustrate, if the salespeople in a company were unable to meet sales targets, students would suggest designing a performance-based incentive system without fully realizing the practical implications. For instance, such schemes may promote individual achievements at the cost of team efforts (Wright *et al.*, 1993), or may lead to discontentment among the sales support staff in the absence of similar incentives for them as well. Moreover, the exercises in textbooks commonly available in India often pertain to the economy of the US. We have noted that students often find it easier to identify with native characters and local situations as much contextual information is already available to them.

Scholars (e.g., Seltzer and Smither, 2007) have previously developed customized exercises to suit their unique teaching requirements. Hence, in light of the above factors, we developed two short case studies using places, businesses, and other details familiar to students. Although one case was about an entrepreneurial venture, the other pertained to the fast-growing business process outsourcing (BPO) sector. We used these two case studies with students across two business schools in India. Some of these students were executives with 5–7 years of work experience who were enrolled in an elective course on compensation management.

In the remainder of this paper, we provide a brief overview of the key concepts we intended to highlight and interrelate in these case studies. After this, we provide a brief overview of the cases, and describe how these were used in the classroom and our observations on learning experiences of the students. We end our paper by offering a few suggestions for instructors who may like to use these or similar short cases in their teaching.

Compensation issues included in case studies

Based on our understanding of students' learning needs and importance of various issues in compensation management, we attempted to weave our case studies around three key interrelated issues. The first issue we brought to relief was the role of compensation in hiring and retaining desired talent. Second, we highlighted that while employing higher compensation to attract and retain desired people, managers also need to consider internal and external equity as it impacts the motivation and performance of employees. The last issue we attempted to highlight was the impact of compensation decisions on individual and organizational performance. We built stimuli in the case studies around these issues so that students could sense them and realize their pros and cons as well as interrelatedness during discussion. Before proceeding further, we provide an overview of the literature around these issues.

Attraction, retention and compensation

Organizations tend to offer attractive compensation in order to recruit and select desired people. In a review of academic research on the role of compensation in attraction and retention, Gerhart and Rynes (2003) concluded that higher compensation improved the quantity as well as the quality of candidates. For example, Krueger (1988) found that the size and quality of applicant pools for government jobs in the US increased as the government offered better compensation *vis-à-vis* the private sector. Williams and Dreher (1992), however, found somewhat conflicting results while examining the impact of compensation practices on the recruitment and selection of bank tellers in the US. They found that although the percentage of benefits in total compensation was positively related to the number of applicants, the pay level was not. When they examined further, they found that the low visibility of compensation practices of banks might have been a plausible reason behind this unexpected result. They also found that the pay level was positively related to the acceptance rate after the candidates were offered jobs.

Beyond recruitment and selection, Shaw *et al.* (1998) found that higher compensation led to lower voluntary turnover. Bretz *et al.* (1994) similarly found that higher compensation reduced job search activities of managers even after controlling for several other antecedents of these managers' motivation.

People's attraction towards higher compensation also seems to work against their retention. In fact, some potentially bright employees may be quite willing to change employers in order to make more money. To illustrate, Trank *et al.* (2002) found that college graduates who were high achievers in several domains were less likely to be committed to their employers, yet they also expected to be paid more base pay as well as larger bonuses. Keith and McWilliams (1999) found that the US employees in their early stages of career exhibited high rates of job search and mobility, and they also received monetary returns for such behaviors. A recent study of Hay Group (2009a, b) reported similar trends in India; it stated that shifting jobs in order to get a double-digit salary increase has become quite common for a generation of Indian employees. Though Hay Group (2009a, b) reported some slowdown in salary increases during the recent global financial crisis, it seems that the situation has reversed. The latest compensation survey of Hewitt Associates (2010) projected that salary growth in 2010 in India would be the highest across Asia, with people in the junior management cadre expected to receive the highest increase. Another noteworthy projection of this survey that highlights the situation in Indian organizations is that Indian-owned companies may offer higher compensation growth than even more established multinational corporations (Hewitt Associates, 2010).

In the current era of what Michaels *et al.* (2001) have called a "war for talent," the use of compensation for the retention of high-performers has become quite vivid. Some organizations are willing to pay "whatever it takes to prevent losing" their high performers (Michaels *et al.*, 2001: 131). To illustrate, the 2000 annual report of General Electric (GE) states that for managers who share GE values and make the numbers, "… sky's the limit!" (p. 5) and that their top performers must be "… rewarded in the soul and wallet …" (p. 6).

It should be noted here that the rapid growth of the Indian economy in recent years has led to a spurt in the demand for talented employees. For example, information technology (IT) and IT enabled Services (ITeS) industries in India have grown briskly in recent years. In the 7 years, from 2001–2002 to 2008–2009, the revenue of the IT/ITeS industry in India registered a compound annual growth rate of 26.9% (Department of Information Technology, Government of India, 2010). The salaries of IT/ITeS sector employees also grew remarkably during this period. For example, the ITeS sector witnessed its highest salary increase in the years 2002 and 2003 (Dev, 2003). At the same time, the attrition rate in ITeS sector is quite high; Grover (2007) reports the attrition being in the range of 30–45%. Hence, despite an aggressive use of higher compensation in attraction and retention, as reported by surveys mentioned earlier, organizations in rapidly growing sectors of the Indian economy have found it increasingly difficult to attract and retain employees.

Fairness in compensation

Theorists and policymakers have long been concerned about fairness in compensation. As early as 1928, the International Labor Organization recognized that wages in many countries were not fair, and hence instituted mechanisms to ensure that the member nations adopted fair procedures not only to determine minimum wages, but also to monitor the payment of such minimum wages to people (International Labor Organization, 1946). In India, such initiatives began even earlier, in 1920, when efforts started to set up boards to determine minimum wages in different industries (Ministry of Labor, Government of India, n.d.). Such efforts resulted in government policies to ensure fair wages for workers in organized (i.e., industries) and unorganized sectors (such as agriculture-related work). Criteria such as minimum food, clothing, housing and recreation needs, are used even to the day to arrive at minimum wages. Organizations have to abide by the applicable minimum wages. These government regulations aim to ensure fairness to employees as a class against owners and managers of businesses as well as to sections of employees that do not receive fair treatment. The first set of interventions is reflected in various provisions of minimum or fair wage to be paid, and the second one in the acts that protect minorities or women against unfair pay practices.

Apart from governmental regulations that mostly enforce the fairness of compensation for workers, there is considerable academic literature on several aspects of fair compensation. Adams (1963) theorized that employees find their employment as fair if the perceived value of their input (e.g., their effort and education) is equal to the perceived value of their output (e.g., compensation and recognition). Adams (1963) further assumed that people compare the ratio of their perceived inputs and outputs with their coworkers. Kulik and Ambrose (1992) hypothesized that employees consider other people's personal factors (e.g., gender, age) as well as organizational situations and policies (e.g., physical proximity with comparators) while selecting referents for such comparisons.

Research shows that the results of such comparisons lead to noteworthy attitudinal and behavioral outcomes. For example, Sweeney *et al.* (1990) found that people feel dissatisfied when they find others similar to them receiving higher compensation. Greenberg (1990) found that employees stole more when they felt that they were not getting as much pay as they thought they deserved. Moreover, employees who perform better than others exhibit stronger reactions to inequitable compensation; such employees leave organizations more frequently (Harrison *et al.*, 1996; Trevor *et al.*, 1997).

Apart from the issue of pay inequity in general, we also wanted to highlight the topic of pay dispersion across the different levels of an organization. Although it may be prudent to reward the high-performers and people in higher management handsomely, such practices have their downside. Even the supporters of more differentiation in compensation (e.g., Lazear, 1989) grant that variation in intra-organizational compensation can have a negative impact on fostering cooperative behavior. Similarly, Cowherd and Levine (1992) found that pay dispersion had a negative impact on quality. Acknowledging such adverse impacts of pay dispersion, Gerhart and Rynes (2003) cite the examples of Southwest Airline, SAS Institute and Ben & Jerry's as organizations that prefer less wage differential across ranks for strategic or other reasons.

Shaw *et al*. (2002) found that higher pay dispersion may lead to more organizational productivity only when such differences can be explained by legitimate reasons such as pay-for-performance plans, and when work is more independent than interdependent. Shaw and Gupta (2007) further point out that when organizations communicate such reasons for pay dispersion to employees, good employees are less likely to quit.

Here it should be noted that according to a recent study of salary gap between a typical senior manager and a typical clerical staff across 56 countries (Hay Group, 2009a, b), India had higher disparity (rank 12) than the USA (rank 39). Besides the above-mentioned negative intra-organizational outcomes of such disparity, some recent incidents suggest that high levels of executive compensation may also evoke adverse reactions from regulators. For example, when some investment banking companies paid bonuses to their managers even after having received taxpayers' money in order to recover from the recent financial crisis, President Obama called these actions irresponsible and shameful (Stolberg and Labaton, 2009). The Prime Minister of India has also expressed similar sentiments in recent years. While addressing the annual meetings of Indian industry representatives in 2007 and 2008, the Prime Minister appealed to them to voluntarily control what he termed "excessive remuneration" citing the adverse reactions such high compensations evoke from the wider society (Press Information Bureau, 2007; Prime Minister's Office, 2008).

Compensation, motivation, and performance

The impact of compensation on employee motivation is discussed in several textbooks (e.g., Henderson, 2006: 317–324). Though there is no agreement in the literature on the impact of compensation on employee motivation, some theories suggest that money is not important for employee motivation. For example, Maslow (1943) argued that money may not play a prominent role in motivation as it can be used mostly to meet lower order needs, but not higher order needs that have greater potential for motivating people. Herzberg (2003) similarly argued that money is mostly a hygiene factor, meaning that absence of money may lead to lack of motivation, but money *per se* may not be a strong motivator. He did accept the impact of compensation on employee motivation, but he argued that such motivation is short-lived. Cognitive evaluation theory (Deci *et al*., 1999) suggests that under certain conditions, money can even reduce motivation.

On the other hand, reinforcement theory suggests that compensation is positively correlated with motivation and subsequent performance. In a meta-analytic study, Stajkovic and Luthans (1997) found that monetary rewards had substantial impact on performance. Yet another study by Stajkovic and Luthans (2001) found similar results. Some scholars have, therefore, questioned the validity of theories mentioned earlier that downplay the role of money in motivation. Gerhart and Rynes (2003) point out several drawbacks in the arguments of Maslow, Herzberg, and cognitive evaluation theory, and after a careful review of empirical evidence, they conclude that monetary incentives have substantial impact on employees' performance. However, they also caution that the performance indicator studied previously (e.g., units of output produced individually) do not resemble the performance expected in our "increasingly skilled and knowledge-based economy" (p. 118).

Rynes *et al*. (2004: 387) not only endorse money as an important motivator, they also report the individual and situational factors that determine the importance of compensation for people. To illustrate, performance-linked compensation is a more important factor for people who have high need for achievement (Bretz *et al*., 1989; Turban and Keon, 1993). Similarly, Cable and Judge (1994) found that individualistic and highly self-efficacious people preferred to work for organizations that offered individual-based compensation. Stewart (1996) found that people high on extraversion focused more on those aspects of performance that were explicitly tied to incentives.

Gerhart and Rynes (2003) suggest that goal setting theory can shed further light on the relationship among compensation, motivation, and performance. According to this theory, specific and difficult goals, particularly when employees are involved in setting these goals, can have a substantial positive impact on the level of motivation and performance (Locke and Latham, 2002). Goals set through participation as well as assigned by supervisors – provided that supervisors also explain the rationale behind the goals – can enhance motivation (Latham *et al*., 1988). Although participation in setting goals can increase intrinsic motivation, Shalley *et al.* (1987) reported that externally assigned goals can also increase intrinsic motivation. Making rewards contingent on achievement of performance goals, however, has mixed effects on intrinsic motivation. Although positive feedback – based on performance – can enhance intrinsic motivation, pressure to perform may decrease intrinsic motivation (Harackiewicz *et al.*, 1984).

A noteworthy variable in goal setting theory is the nature of goals. Employees may set performance goals (such as achievement of a sales target), or learning goals (such as developing a particular competence). Harackiewicz *et al.* (1997) found that students who set mastery goals were more intrinsically motivated and interested in class, whereas students setting performance goals achieved higher grades. Though the impact of mastery goals on intrinsic motivation seems straightforward (Harackiewicz and Elliot, 1998), the impact of assigned performance goals on intrinsic motivation depends on the achievement orientation of individuals (Elliot and Harackiewicz, 1994) as well as on context emphasizing competitive performance (Harackiewicz and Elliot, 1998). The role of context in determining the impact of goal setting becomes further important considering the often interdependent nature of organizational work. People committed to difficult and specific goals often do not engage in interpersonal helping as Wright *et al.* (1993) found in a laboratory setting. As Gerhart and Rynes (2003) note, organizations try to work around this problem by including both collective and individual goals in the incentive scheme. However, the increased inter-dependence inherent in achieving a collective goal may also discourage people as their expectancy assessment – the belief that one can achieve a performance target if one puts in effort – may come down (cf. Schwab, 1973). The tradeoff inherent in incentive design becomes starker due to the incompatibility of goals in organizations; hence one may expect incentives for people involved in production and marketing to work at cross-purposes (cf. Schmidt and Kochan, 1972).

Although discussing the impact of incentives on performance, it is pertinent to note the problems inherent in assessing performance that subsequently forms the basis for performance-based incentives. As Gerhart and Rynes (2003) point out, organizations employ two mechanisms for appraising performance: performance rating and objective performance measures. None of these two approaches is free from problems. Measuring objective performance is problematic as many knowledge-intensive jobs (e.g., scientists, doctors) may not lend themselves easily to quantification without compromising quality. Performance rating is troublingly subjective, as Murphy and Cleveland (1995) pointed out. For instance, Rothstein (1990) and Viswesvaran *et al.* (1996) found that performance ratings provided by different supervisors often do not match.

Summary of key issues

In the preceding sections, we offered a brief overview of three interrelated key compensation issues. First, we touched upon the role of compensation in attraction and retention of talent. It emerges that higher compensation is an important consideration for applicants and employees alike. For instance, Gerhart and Rynes (2003) concluded that higher compensation improved the quantity and the quality of applicants. And Shaw *et al.* (1998) found that higher compensation led to lower voluntary turnover among existing employees. High achievers in particular not only expect more compensation in current jobs, they also seem to be more willing to switch jobs for higher compensation (Trank *et al.*, 2002). Companies, therefore, seem to use compensation as a key tool for retaining high-performers (Michaels *et al.*, 2001).

The second key issue concerns fairness in compensation. Theorists (e.g., Adams, 1963) have highlighted the negative impact of perceived unfairness in compensation. For example, Sweeney *et al.* (1990) reported that people felt dissatisfied when they found that others similar to them were receiving higher compensation. This dissatisfaction is stronger in the case of high performers, and such people also leave jobs when they perceive their compensation to be unfair (Harrison *et al.*, 1996; Trevor *et al.*, 1997). We also mentioned that pay dispersion within an organization has a negative impact on quality (Cowherd and Levine, 1992), unless the organization offers reasonable explanations for such a differential (Shaw *et al.*, 2002).

The last key issue we covered was the impact of compensation on the motivation and performance of employees. Although some theorists (e.g., Maslow, 1943; Herzberg, 2003) suggest that money is not an important motivator, the impact of money on performance seems difficult to ignore. A meta-analysis by Stajkovic and Luthans (1997) found that monetary rewards had substantial impact on performance. And people high on individualism, self-efficacy and need for achievement, value higher compensation a good deal (Bretz *et al.*, 1989; Turban and Keon, 1993; Cable and Judge, 1994). Employees with high achievement orientation respond favorably to rewards tied with the achievement of a performance goal (Elliot and Harackiewicz, 1994; Harackiewicz and Elliot, 1998), but the interdependent nature of organizational work may suffer in such situations. Similarly, the problems inherent in assessing performance fairly and objectively (cf. Murphy and Cleveland, 1995) – which subsequently constitutes the basis for differential compensation – are difficult to ignore.

Overview of the case studies

In the first case (A&B Foods, Appendix A), we wanted the students to go through the experiences of an entrepreneur whose business expanded rapidly. The recent rapid growth of the Indian economy has resulted in the increased viability of such small businesses in India. To illustrate, while the number of such enterprises grew at a compound rate of 4.1% from 2002–2003 to 2007–2008, the value of goods and services produced by these enterprises grew at a much higher rate of 11.7% during the same period (Ministry of Micro, Small and Medium Enterprises, Government of India, 2009). The growth story of the organization mirrored the trend seen in the Indian economy so that students could relate to it. Some students also chose to work for entrepreneurial companies, or wanted to become entrepreneurs. Hence, this case study was expected to expose them to the messy processes of decision-making such entrepreneurs go through. The location of the case study was deliberately chosen because many students either came from the national capital region of India, or had worked there for several years.

Higher compensation offered to the professional talent also mirrored what many family-owned businesses do in order to attract such people. The introduction of the incentive scheme and its subsequent extension to other employees also reflected the knee-jerk reaction of managers in many situations. Managers are at times unable to take a long-term perspective while attempting to solve immediate problems and gain temporary respite. The later part of individual incentive schemes working at cross purposes also mirrors the inherent tension in marketing and production (Schmidt and Kochan, 1972). The case illustrates that while pursuing difficult goals, employees may not engage in interpersonal helping (Wright *et al.*, 1993).

In the second case (RIPL, Appendix B), the purpose was to highlight the people-related problems in the rapidly growing ITeS sector of the Indian economy. As mentioned earlier, ITeS organizations face high rates of salary increase and attrition. In order to hire people with required competence and remain competitive, these organizations have to watch the salary trends in their markets closely and respond to these speedily. Such practices over the years lead to quite a high staff cost that also adversely impacts the bottom line in an increasingly competitive market. Hence the decision makers of ITeS organizations often face the challenge of containing the staff cost as well as attracting and retaining good people while also generating healthy revenue and profit in an increasingly competitive market. As mentioned earlier, the RIPL case also illustrates that higher pay dispersion weakly tied with performance assessment may lead to negative organizational outcomes.

We have earlier mentioned some individual difference variables (e.g., high need for achievement, individualism, high self-efficacy and high extraversion) and their implications for compensation. These individual characteristics resemble the profile of people hired at RIPL. The culture of RIPL was designed to mirror the prevailing culture of some BPO organizations (Bhatnagar, 2007). As many executive students either came from or would join the middle-manager ranks, the RIPL case was expected to expose them to a likely problem they would face.

Background information about students in Indian business schools

Though India was a comparatively closed and protected economy till about 20 years ago, liberalization efforts since then have resulted in a high rate of economic growth for the country in recent years. Significant advances have been made in sectors such as IT giving an impetus to the overall growth of private enterprise in the country. However, a large public sector exists side by side with prominent companies in steel, petroleum, banking and other sectors. The private sector is characterized by a large number of family-run firms that are often in the news for disputes of ownership and control. Though most of these companies started and grew during the pre-liberalization era, many have adapted to changed conditions in the last two decades and have expanded to become globally competitive firms.

As a result of the above-mentioned growth, managerial talent is in great demand in the country. Most executives are drawn from business schools that have become increasingly prominent in recent years. Business education was initiated into the country more than half a century ago with the establishment of state sponsored management schools. Today, entry to these government-owned schools is highly competitive, thus they attract some of the best students in the country. However, there are many privately run institutions conducting programs in business management to cater to the expanding demand for business education. Typically these programs are of 2-year duration with a bachelor's degree as the entry requirement. The institutes play an active role in obtaining placements for their students and most students of the top schools have multiple offers to choose from by the time they graduate. Corporate executives typically command higher salaries compared with others such as government employees, university teachers, or those working in non-governmental organizations. There is also a great degree of disparity in income between them and blue-collar employees and those working in the unorganized sectors.

The majority of students in the most highly rated institutions are engineers. There would also be a sizeable number from commerce or economics backgrounds and a few from other streams. About half of the students have at least a year's work experience before entering the program. Most students come from a predominantly urban English-speaking middle class in India that is increasingly focusing on high-quality education as a means of social and economic advancement. We cannot rule out the influence of these factors in the ways in which students prioritize issues in the cases and offer solutions to difficult managerial problems.

Apart from the socio-economic factors mentioned above, dominant cultural values and orientations also affect students' perceptions and analysis of business situations. The following dimensions of culture seem to be particularly relevant in the Indian scenario. First, Indians are known to be more collectivistic in comparison with many countries in the West that are characterized by individualism. In a predominantly individualistic culture, the interests of an individual are considered more important than the interests of the collective the individual belongs to, and the reverse is true for collectivistic societies (Hofstede, 2001). Researchers have also highlighted how this can affect perceptions concerning reward mechanisms in organizations. For example, Caramelli and Briole (2007) argue that the impact of employee stock ownership on satisfaction may differ according to the collectivistic orientation of employees. Another societal value orientation that might be relevant is power distance. Power distance is "the extent to which less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally" (Hofstede, 2001: 98). Social interactions in India are characterized by a greater degree of power distance than elsewhere and it is fair to assume that this would impact the way in which managers and students of management would address issues. Yet another cultural attribute having the potential to influence students' reasoning is performance orientation. Societies with high-performance orientation emphasize and reward performance, value bonuses and incentives and provide less weight to age in promotion decisions. Students who are natives of societies with low-performance orientation such as India on the other hand, may value employees' loyalty and seniority more (Javidan, 2004). For instance, there is evidence to believe that an Indian manager may accord non-work factors (such as family situations of subordinates) more importance than those subordinates individuals may merit in finalizing salary raise (Bass *et al.*, 1979). In fact, in their study comparing decisions about salary increases among managers from 12 nations, Bass *et al.* (1979) found that only Indian managers gave poor performers more salary increase as compared to an average performer. Such an orientation is also evident in the practice of nurturant-task leadership in Indian organizations (Sinha, 1980). A nurturant-task leader is often viewed as the patriarchal head of an extended family and, therefore, is expected to take care of employees even in matters beyond the workplace. Such diffusion of work and non-work realms are not unusual in Indian organizations and in the decisions of managers working in them.

Although highlighting these features of Indian culture, we also want to note that societal values are not static. As Srinivas (1952) pointed out, sections of a society may gradually adopt the values of some other section in order to achieve upward mobility. Many students in Indian business schools come from families where parent(s) are working in multinational organizations, and orientations of these students might have also been shaped by their exposure to the western world through media and visits.

Instructional strategy and outcomes

We found that two approaches were possible to introduce the above-mentioned compensation issues to the students through case studies.

- In the first approach, the key concepts are introduced first in class. The students are then asked to read the cases and see how the concepts apply in each of the situations. They would then be required to demonstrate their understanding during classroom discussions on the cases.
- In the second approach, the case studies are provided to the students to read followed by classroom discussions. The instructors play an active part during these discussions, often questioning or agreeing with the logics presented and summarizing the issues that emerge from these discussions. In the process the students enhance their understanding regarding key issues that need to be considered in managing compensation in organizations.

We chose the latter because of three reasons.

- First, we anticipated that the cases would be seen by students as practical managerial problems to be solved. Attempts to solve this on their own through reading of the case and subsequent reflection would make the discussions of key issues in class more interesting.
- Second, we expected that this approach would facilitate the discovery of concepts and construction of knowledge by students themselves (cf. Whetten, 2007). This puts greater responsibilities for learning outcomes on the students themselves leading to the possibility of greater involvement.
- Third, this approach requires instructors to maintain a sense of openness regarding the issues that might emerge from the discussions on the case studies. Students might often bring forth issues that were not anticipated by the instructors and this needs to be handled with adeptness and confidence. As a result, instructors have an opportunity to get new insights and sharpen their own instructional skills in such an approach.

To facilitate the above, classes were organized in the following manner.

- Initially, the printed copies of cases were circulated to students and they were given adequate time to read and reflect on the cases.
- Then, discussions were initiated either in a freewheeling manner where all students were simultaneously involved, or in smaller subgroups consisting of five to six members each.
- If subgroups were used, then each group was given 2–3 min to summarize their observations and recommendations for the case. Other groups could seek clarifications or challenge the views presented often leading to very spirited discussions on the logic behind certain recommendations and the highlighted issues. As instructors, we encouraged students to come up with new ideas, questioned and challenged the ideas they put forth, sought explanations and also encouraged other students to do the same.
- Whenever discussions seemed to veer off drastically from compensation issues, we tried to bring them back to the original agenda. We specially highlighted those aspects of the discussion that related closely with concepts and theories mentioned in the text book and encouraged them to read the relevant chapters to help them concretize their learning from the classroom discussions.
- We typically reinforced these through brief questions in the following classes and highlighting key points that went beyond textbook material.

Typically both the cases generated enthusiastic discussions among the students. We surmise that one of the reasons for this interest could be the similarity of the situations presented with real life business environment in India. Entrepreneurial ventures such as A&B foods and outsourcing arrangements as in the case of RIPL are all too familiar to the Indian manager. We have observed in our teaching of other topics that at times students are not able to connect well with the social, economic and cultural context of cases set in western settings. In contrast, cases where such contexts are familiar to the students tend to generate a deeper level of discussions as students are able to identify the nuances behind the given case facts and thus have much more information that can spur in-depth discussions. For example, in the case of A&B foods, students could easily connect to the conflict between Chander and Dheeraj in the context of power distance and loyalty that are culturally important in Indian settings. Thinking in the context of the current economic realities in India, several students justified higher compensation for top management citing talent crunch and retention issues witnessed in all sectors of the booming Indian economy. However, such vivid evocations of problems applicable in the students' socio-economic settings can also inhibit the exploration of other factors that might be relevant to larger issues in managing compensation. In the RIPL case, although many students justified increased compensation for top management, they often could not see the issue of overall performance of the organization and its connection to the remuneration of its executives. Here the instructors needed to play a more active role in helping students to rise above the concerns predominant in their economic and socio political settings and examine varied possibilities.

The issue of equity in compensation was prominent in the discussions in both cases though these were approached differently by the subgroups. Most often the necessity of different standards for different levels of employees was emphasized. Thus they were in favor of higher and often exorbitant compensation paid to employees at the top or those with special skills. The predominant reason cited was that if the company fails to retain them, their competitors would employ them and thus lead to a market disadvantage for the company. Students tried to employ various norms to achieve fairness or point out the lack of it. Factors external to the job itself such as the age of employees were also utilized to achieve fairness. This was exemplified in the RIPL case, where age related information was provided. During discussions it was also occasionally pointed out that a wide salary gap among persons in almost the same age group may invoke perceptions of unfairness (cf. Kulik and Ambrose, 1992).

Most often, students were able to identify some of the prominent challenges of compensation management in organizations. For example, in both the cases, students typically suggested that a balance between individual incentives and those based on unit and organizational performance are necessary for a compensation scheme to be effective. However, they were not able to specifically indicate what this "balance" meant. As instructors, we highlighted the inherent tensions among organizational units that can be aggravated or reduced through the introduction of various incentive designs. For instance, substantial rewards contingent upon achievement of individual goals can reduce the propensity of the individual to engage in interpersonal helping or focus on organizational level objectives. The discussions that followed impressed upon the students that it is very challenging to design incentive schemes with individual, unit and organizational components in harmony so that the overall organizational goals can be achieved.

The effectiveness of compensation as a means of achieving organizational objectives was seldom critically examined by the students. There was scope for such criticality in the RIPL case where it was indicated that salary surveys in the sector showed that the category receiving the highest increase also showed high attrition rates. Thus, the organizational objective of retaining employees was clearly not served by the compensation system in place. As instructors we needed to make efforts to assist students in adopting this sort of a critical approach to devices, systems or practices that are widely employed by organizations with the aim of achieving results. This is not easy as students tend to subscribe to simplified versions of economic and managerial realities as expounded in the popular press or textbooks.

We have observed that diversity of the undergraduate academic background of the students can aid this process. In a class dominated by engineers, the discussions usually brought answers that were not too diverse. However, when there was a class with mixed undergraduate backgrounds such as in commerce and accounting or humanities in addition to engineering, the ideas put forth tended to incorporate multiple perspectives. Another factor that aided this was the prior work experience of students. In a class where a few people had experiences in non-corporate sectors such as governmental or non-governmental organizations, the discussions tended to bring forth an increased number of ideas to solve the problematic situations presented in the cases. We have also observed that allowing subgroup discussions and short presentations of the analyses by each group creates a sufficient degree of dissonance and an interesting amount of healthy debate to help students examine multiple perspectives. However, this can be time consuming and we have often found that a single session of 90 min is inadequate to do this.

Conclusion

Two short cases were designed with the aim to help us address the lack of classroom exercises to aid the teaching of compensation concepts to postgraduate students of business in India. On the whole we believe that the employment of these cases has helped us in achieving our instructional objectives. We anticipate that similar outcomes can be observed when exercises/cases are grounded in the particular economic, socio-political, and cultural settings of students. This extends the contention put forth by Johns (2006) about the value of such grounding in what we do in the classroom situation.

In this attempt we faced two challenges pulling us in opposing directions. The first was to effectively design short cases that bring forth key issues in compensation management and their inter-relationships reflecting real world complexities. The instructors' knowledge and interpretation of these issues and their intimate familiarity with the chosen setting, become crucial elements that define success here. Thus, in this stage, the instructors' challenge is to bring broad concepts into focus and ground them in a particular socio-economic setting. This challenge was of primary concern during the preparation of the cases that were to be used in class.

However, we had exactly the opposite challenge in the next stage when cases were actually used in the classroom. Here, we had to ensure that students were not constrained by limited understanding of an issue, but would rise above the given economic, geographical or cultural setting to realize their applicability in multiple settings with noted variations in socio-economic or cultural features. In the previous section we have described how we faced this challenge in helping students to rise beyond the immediate concerns of the Indian scenario.

It is clear that to be effective, instructors have to address these opposing tensions creatively. During our classes we have found that drawing from the experiences of the students from their earlier work places can be helpful in highlighting key issues in compensation management and their inter-relationships. However, provoking the class with non-typical instances from news reports or our own experience can be facilitative in ensuring that students are not constrained by a limited understanding of an issue. Instructors have to help them rise above the concerns of their immediate surroundings and look at issues in a globally relevant and holistic manner. Structuring the class creatively through the utilization of subgroups can also aid in the process of adding criticality and incorporating multiple perspectives. This would help students to explore the application of key issues in a more integrated manner. In conclusion, small cases anchored in the socio-political, economic and cultural context of the students can be facilitative in teaching compensation management. They can be extremely useful in presenting key issues on the topic and their complex inter-relationships in an effective manner. However, the design of instruction to enhance the quality of inputs from participants and the instructors' ability to manage the double prospect of concretizing and broadening key issues in compensation management are crucial in the achievement of learning outcomes.

Notes

[1]Capital of India.

[2]1 USD=INR 50 (approximately).

[3]For convenience, take 1 USD=Rs. 50.

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APPENDIX A

A&B foods

Amit and Babloo were very close friends. They had grown up in the same locality of Delhi,[1] went to the same high school and ultimately ended up being partners in a start-up venture. After graduation, both tried their hands at several jobs, but without much financial success or personal satisfaction. They finally joined hands, pooled their meager savings (INR[2] 100,000 each) and started a fast food outlet in their locality in 2001. Due to their hard work and a bit of luck, their business (A&B Foods) grew exponentially. Six years down the line, they had 18 outlets in different parts of Delhi with net annual profit of INR 6 million (last year's figure).

Throughout their entrepreneurial journey, they had relied heavily upon Chander, their key employee. Chander, in his late 30s, was a college graduate without any professional qualifications. However, he had loads of common sense and an intuitive understanding of their market. He was a hands-on person with little respect for formal paper work or systems. He was responsible for procurement and operations at A&B foods. He had been a star performer so far, but both the partners often sensed that they needed some professional talent to enable A&B Foods to grow even further. To make matters worse, Babloo had recently met with an accident. Though he was recovering, doctors had advised him to keep away from the stress and strain of business for at least a year.

Amit thought he had an answer to these problems when he met Dheeraj 3 months ago in a pub. Dheeraj was a young graduate from a top hotel management institute with 2 years of experience. Dheeraj and Amit soon became good friends. Amit came to know that Dheeraj was contemplating quitting his current job as he felt it was not offering him enough growth opportunities. Sensing that Dheeraj fit his requirements nicely, Amit offered him the job of marketing head of A&B Foods (a job that both Babloo and Amit had done themselves so far). Dheeraj took some time to decide as the brand of A&B Foods was not very appealing to him. However, he ultimately took the offer as it promised considerable autonomy and scope to prove himself. He was also slightly better off in terms of compensation, as Amit had offered him INR 500,000 per annum. Dheeraj was getting only INR 450,000 in his previous job, so he thought it was a decent offer. For Amit, though, it was a big decision. His best employee so far, Chander, was getting only INR 360,000 per annum. He had to struggle to convince Babloo that Dheeraj was worth the money. Even though he could convince his partner, Amit was not very sure how Chander and Dheeraj would get along together. To his surprise, though, both Dheeraj and Chander gelled quite well. Amit started feeling that he had made a very good decision by hiring Dheeraj.

Amit and Babloo knew that there is huge potential in the market. They had estimated that with some professional help, they could comfortably double their net profit in the current year. However, such an achievement was possible only if (a) Chander and Dheeraj worked as a team (b) both of them put in their best effort, and (c) luck favored them.

After three happy months of his stay, one day Dheeraj approached Amit with bad news. He was recently contacted by a multinational fast food chain that was offering him INR 600,000. Amit realized that he'd have to do something to stop Dheeraj from leaving. After discussing the entire matter with Babloo, he designed an incentive scheme. He told Dheeraj that if the profit of A&B Food this year could top last year's level (which was INR 6 million), Dheeraj would get 25% of his salary as a bonus. Both Amit and Babloo thought that this offer was lucrative enough and Dheeraj would stay back. Though they were right (Dheeraj did stay back), they were soon faced by another problem. Chander soon came to know of this bonus scheme, and he felt that he too should get some bonus.

Once again, the partners huddled into a discussion and they realized that they could not afford to lose Chander either. Sensing that it was also unfair not to provide similar incentives to their old lieutenant, they offered a similar bonus (25%) to Chander provided A&B Foods could make more net profit this year than it made last year.

However, the problems of Amit and Babloo did not end. A compensation consultant (a common friend of Amit and Babloo) pointed out to the partners that the incentive scheme was flawed. His argument was that the bonus was not tied to individual employee performance, but to the performance of A&B Foods as a whole. Hence it did not offer much motivation to Dheeraj and Chander to improve their respective performance. Amit and Babloo felt that the argument made sense. But having made the offer, they could not go back on their promise. Heeding the advice of their consultant friend, they devised another scheme. As per this scheme,

1. Chander was told that he would receive 10% of the entire saving he could bring about in the cost of procurement (as he was in charge of procurement).
2. Dheeraj was similarly told that for every 10% increase in customer volume, he would receive INR 50,000 extra.

Three months after this scheme was announced, Dheeraj and Chander were fighting with each other almost daily. The profits of A&B Foods, as a result, were badly hit.

APPENDIX B

Resurgent India (private) limited

Sharad Soni could not have started his day on a worse note. As he settled down in his office with a cup of coffee, he noticed there were 54 unread e-mails in his inbox that had arrived since last evening. He sighed … this company never goes to sleep, he muttered to himself. However, the worst was still to come. As he reached the last unread mail, he counted the numbers … three resignations overnight! Including these three, he had received 10 resignations this month alone although 9 days were still to go. For a 4-year-old company with about 200 staff, this was almost catastrophic. Further adding to his woes was the fact that he did not know who all were the potential bright stars of tomorrow among the people leaving his company.

The company

Resurgent India Private Limited (RIPL) was the BPO (business process outsourcing) arm of Resurgent Inc. USA, an MNC operating in 60 countries. RIPL had offices in Delhi and Bangalore. It was a captive unit, involved mainly in servicing the US-based customers of Resurgent. The main activities consisted of calling potential customers over telephone, handling customer complaints from the US and maintaining the database of US customers. RIPL was treated as a strategic business unit of Resurgent Inc. for all practical purposes. RIPL began operations in 2004 with first-year revenue of about a million US Dollars (USD). Since then it had grown impressively and clocked USD[3] 5 million as revenue the last fiscal year. However, the company profits last year had grown only by 17% whereas the BPO industry had grown by close to 30%. The falling rupee had further hit the profitability of RIPL. The US office was unrelenting, though. It had set a stiff target for RIPL in the current year. RIPL was given a stretch goal of increasing the revenue and profit both by 30%. With the current attrition level, Sharad felt it was an almost impossible target.

The people

Sharad was one of those people who had grown with the company. He had joined RIPL as senior HR executive, and had risen to be the HR head in 2006. However, people like Sharad were rare. Out of the initial team of 41, only 11 people were left. Most of these survivors were high performers like him, and were occupying the senior management positions within RIPL.

At the entry level, RIPL hired from the best local colleges and MBA institutes. It selected aggressive self-starters from these campuses. RIPL believed in hiring extrovert achievers who had fire in their bellies. RIPL believed that only such people could help it grow rapidly enough to be able to be of significance in the worldwide set-up of Resurgent. As a result, the culture at RIPL had evolved to be individualistic and aggressive.

The following table provides a broad classification of people at different levels of RIPL:

Level	*Number of people*	*Average age*
Senior management	15	32
Middle management	35	28
Entry level	150	24

The work at RIPL was quite demanding. Standard operating procedures were comprehensively laid out, and any deviation was actively discouraged. Individual employees had stretch quarterly targets. Team work was limited to a few activities, and most of the work got accomplished due to individual initiative.

RIPL had a comprehensive system of tracking individuals' performance. Performance targets (mostly in measurable or monetary terms) used to be set in the beginning of the year, and performance was informally reviewed on quarterly basis. The formal appraisal used to take place at the end of the financial year. The average performance rating of entry level professionals last year had gone up from 3.2 to 4 (on a scale of 1 to 5, 5 being the best possible ranking).

Compensation and rewards

The overall staff cost at RIPL was a bone of contention between the US office and RIPL. Over the years, the staff cost had risen from 40% in 2004 to 56% last year. Sharad had been defending this hike citing the high attrition rate across the board coupled with the need to peg salaries at a higher level in order to attract talent to a new company (the compensation philosophy of RIPL was to pay at the 75th percentile of the market). However, with the attrition level not coming down, and rising staff cost, Sharad knew that his position before the US office was increasingly untenable. In fact, one of the mails he read this morning was from his boss in the US who wanted him to explain why the staff cost was at an all time high.

Last year the top executives had received an average salary hike of 25%, whereas the salary of entry level people had gone up by 35% on average. As a result, the average salary of senior management at RIPL was now twice the average salary of people in middle management, and four times the average salary of an entry level professional. The entry level people at RIPL were given a 10% median bonus, whereas the median bonus for top executives last year was 25%. The bonus of entry level professionals was tied to their performance rating, although the bonus of senior people was contingent upon RIPL's financial performance. He was thinking of introducing some mechanism to tie the compensation of people across the board to company's performance. This could ease the pressure from the US, he thought.

RIPL used to add a line in their offer letters that compensation should not be discussed with colleagues, but it was usually a known secret. This had often led to heartburn. People were not so much worried about the salary variations within a particular level as they were about the salary differences across levels. Many employees at the entry level felt that they were not fairly compensated. Sharad felt that this was a major reason behind the low levels of overall satisfaction, as revealed by the latest survey.

Mulling over these issues, Sharad finished his coffee and decided to seek the advice of a close friend Rahul who was doing his MBA from a top B-school. When Sharad and Rahul had spoken over the phone last week, Rahul had told him about the course of compensation management he was taking. Sharad thought that Rahul might offer an innovative perspective to deal with the vexing problems before him. You are Rahul, the friend of Sharad. He has just shared with you the above details of the problem. Sharad has to now go for an important conference call and he is not likely to be back in the next 2 h. Hence you cannot expect any more information from him.

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