

Tutorial Letter 201/1/2015

Compensation Management

HRM3705

Semester 1

Department of Human Resource Management

IMPORTANT INFORMATION

This tutorial letter contains important information
and feedback about the module.

BAR CODE

CONTENTS

	<i>Page</i>
1 INTRODUCTION	2
2 SUGGESTED SOLUTIONS TO ASSIGNMENT 01	2
3 AMENDMENT TO ASSIGNMENT 02	12
4 THE EXAMINATION.....	13
4.1 <i>Format of the examination</i>	<i>13</i>
4.2 <i>Preparing for the examination</i>	<i>13</i>
5 CONCLUSION.....	14

Dear Student

1 INTRODUCTION

The purpose of this tutorial letter is to provide you with feedback on Assignment 01 and to give you some suggestions about preparing for the examination.

You should already have received the following tutorial letters for HRM3705:

TUTORIAL LETTER	CONTENT OF TUTORIAL LETTER
HRM3705/101/3/2015	Lecturers, prescribed book, study material, examination preparation, assignments and comments on Assignment 03 (self-assessment assignment)
HRM3705/102/3/2015	Changes to the prescribed book
HRM3705/103/1/2015	Erratum Assignment 01
HRM3705/201/1/2015 (<i>This tutorial letter</i>)	Suggested solutions to Assignment 01, preparation for the examination and changes to Assignment 02

2 SUGGESTED SOLUTIONS TO ASSIGNMENT 01

In Tutorial Letter HRMALL6/301/4/2015 we provided extensive guidelines on answering assignment questions.

The purpose of this assignment was to test your knowledge and application of theory in Study Units 1 to 3, 7 and 8.

QUESTION 1

In the context of compensation, the concept of equity relates to the fair distribution of rewards. Employees will feel that they are fairly paid when the ratio of their inputs and outputs is equivalent to those employees whose job demands are similar to their own. What fairness objective is being addressed?

- 1 procedural fairness
- 2 **distributive fairness**
- 3 market competitiveness
- 4 internal equity

Option 2 is the correct answer. Refer to Section 1.5.2, “Equity/Fairness”, in the study guide.

Distributive fairness means that employees exchange their contributions (skills, effort, time and so on) for a set of outcomes. Employees think that they are fairly paid when the ratio of their inputs and outputs is equivalent to those of other employees whose job demands are similar to their own. Procedural fairness refers to the fairness of procedures and systems used to make changes to remuneration. Market competitiveness refers to how successful an organisation would be in attracting and retaining employees based on the attractiveness of its remuneration package. Internal equity involves the comparison of rewards across different jobs within the organisation. Options 1, 3 and 4 are therefore incorrect.

QUESTION 2

Sipho and Michelle both work for XMO Engineering, as Engineers in the Civil Engineering Department. XMO attempts to reward Sipho and Michelle for their individual contributions in order to encourage their best performance.

In order to make sure that Sipho does not leave XMO Engineering, what pay is being referred to in the above scenario?

- 1 wages
- 2 **merit pay**
- 3 person-focused pay
- 4 seniority pay

Option 2 is the correct answer. Refer to Section 4.3, “Merit pay”, in the study guide.

Merit pay rewards excellent efforts or results by granting employees permanent increases to their base pay according to their performance. It makes sense to reward more productive employees for their increased contribution. *Wages* are based on the number of hours normally worked and monthly pay is four times the weekly wage. *Person-focused pay* is a plan that rewards employees for acquiring job-related competencies, knowledge, or skills rather than for successful job performance. *Seniority pay* is concerned with employees receiving additions to their base pay according to their length of service in their jobs. Options 1, 3 and 4 are therefore incorrect.

QUESTION 3

Pay differences are a reality in South Africa. The following are explanations for pay differences between men and women:

- 1 **employee differences, work differences, company differences**
- 2 employee differences, company differences, personality differences
- 3 personality differences, work differences, employee differences
- 4 company differences, work differences, personality differences

Option 1 is the correct answer. Refer to Section 3.5, “*Influences on compensation*”, and Figure 3.3 in the study guide. Options 2, 3 and 4 are therefore incorrect.

QUESTION 4

Read through the following scenario and answer the question that follows:

Daniel is starting up a new business with some of his colleagues. They are entering the manufacturing industry. During a board meeting they queried the salary structuring of their workforce. They attempt to establish whether they will pay an hourly rate/annual salary. They are not sure if those employed will get a performance bonus, or if it is tied to individual, team and organisational behaviour. They realised that they need to plan ahead and make the plans happen to ensure that their compensation practices are aligned with both their business goals and employee values.

What activity are they busy with?

- 1 pay structuring
- 2 remuneration framework
- 3 **strategic compensation**
- 4 payroll

Option 3 is the correct answer. Refer to Study Unit 2, “*The essence of strategic compensation*”, in the study guide.

Strategic compensation is an approach to the development and implementation of compensation strategies and the guiding principles that underpin them, a belief in the need to plan ahead and make the plans happen. *Pay structuring* is a process used to gather information using job evaluation exercises; this information is integrated with information gathered using pay surveys to develop a pay structure. A *remuneration framework* comprises the overall remuneration package and the rewards included as various separate elements which should be based on specific measures of performance. *Payroll* is the sum of all financial records of salaries for all employees’, wages, bonuses and deductions. Options 1, 2 and 4 are therefore incorrect.

QUESTION 5

Sporty Shoes has been manufacturing shoes for 30 years and could be the new market leader in the industry. Sporty Shoes has done extensive market research and established that many niche athletic shoe markets exist where athletes are willing to pay more to meet their unique needs and goals to excel in their sport. Sporty Shoes' first priority is to restructure the product development function. They will need to hire and retain talented shoe designers who will understand the need of the niche market. The company will also need to appoint operation specialists to assist with the transition of the manufacturing operations.

Identify the business strategy Sporty Shoes has adopted:

- 1 **differentiation strategy**
- 2 overall cost leadership
- 3 lowest cost leadership
- 4 competitive strategy

Option 1 is the correct answer. Refer to Chapter 1, "Competitive strategy choices", Section 1.4, "Strategic activities" and Table 1.1, "Selected HR strategies that fit two major types of business strategies", in the study guide.

A *differentiation strategy* is adopted in order to develop products or services that are unique and can be distinguished from those of competitors. This strategy can take many forms, including design or brand image, technology features, customer service and price. *Overall cost leadership* and *lowest cost leadership* focus on gaining competitive advantage by being the lowest-cost provider of a product or service. There are different types of *competitive strategies*. Options 2, 3 and 4 are therefore incorrect.

QUESTION 6

Based on the business strategy Sporty Shoes has adopted, what is their competitive advantage?

- 1 Sporty Shoes has been the leader in the industry for 30 years
- 2 They have done extensive market research
- 3 **They manufacture unique shoe designs at a price premium**
- 4 Sporty shoes niche athletic focus

Option 3 is the correct answer. Refer to Figure 1.2, "Sources of competitive advantage", in the study guide.

Competitive advantage is providing a similar product at a lower cost. Options 1, 2 and 4 are therefore incorrect.

QUESTION 7

_____ is a concept designed to reward employees in alignment with the goals and values of the organisation.

- 1 compensation management
- 2 total reward approach
- 3 **compensation philosophy**
- 4 compensation strategy

Option 3 is the correct answer. Refer to Section 2.2.7, “*Compensation philosophy and guiding principles*”, in the study guide.

Compensation philosophy represents the broad values and beliefs that an organisation holds about compensation. It is a concept designed to reward employees in alignment with the goals and values of the organisation. *Compensation management* deals with the formulation and implementation of strategies and policies that aim to compensate employees fairly, equitably and consistently in accordance with their value to the organisation. *Total reward approach* encompasses pay and benefits (generally in the form of a flexible benefits scheme), the working environment and career and personal development. *Compensation strategy* can be seen as a declaration of intent. It defines what an organisation wants to do in the longer term to resolve critical compensation issues and to develop and implement compensation policies, practices and processes that will further the achievement of its business goals and meet the needs of its stakeholders. Options 1, 2 and 4 are therefore incorrect.

QUESTION 8

Read the following scenario and answer the question that follows:

Christine and Rose qualified top of their class. Both ladies obtained their HR master’s degree from the same university and are registered with the relevant professional bodies. Both applied for an HR Generalist position at one of the five big auditing firms as their credentials met the minimum requirements of the positions. Unfortunately their application got denied and they learned that Dave who obtained mediocre results and is not registered with any professional body obtained the position.

Identify the type of discrimination present in the scenario:

- 1 valuation discrimination
- 2 intentional discrimination
- 3 unintentional discrimination
- 4 **access discrimination**

Option 4 is the correct answer. Refer to Section 3.5.2, “*Pay gap and pay discrimination*”, in the study guide.

Access discrimination occurs when qualified women and minorities are denied access to particular jobs, promotions or training opportunities. *Valuation discrimination* is based on the pay employees receive and it occurs when women are paid less than their male counterparts for performing substantially equal work. *Intentional discrimination* occurs whenever employers intentionally treat some workers less favourably than others because of their race, colour, sex, etc. *Unintentional discrimination* occurs when an employer applies an employment practice to all employees. Options 1, 2 and 3 are therefore incorrect.

QUESTION 9

Industry or product growth has an important impact on the compensation strategy. Identify the phase where a company will likely revise and adopt their compensation strategy to ensure that their offerings are market related.

- 1 embryonic phase
- 2 **maturity phase**
- 3 growing phase
- 4 ageing phase

Option 2 is the correct answer. Refer to Section 2.3, “Strategic choices”, in the study guide.

The *maturity phase* is coupled with consolidating positions to protect market niches. Most attention is focused on keeping salary and perks competitive. The *embryonic phase* places reduced emphasis on salary, benefits and perks, and focuses on common strategies and new product development. The *growth phase* emphasises acquiring market share and catching up with salary and benefits. The *ageing phase* is concerned with cost reduction and the possible retrenchment of employees to reduce labour costs. Options 1, 3 and 4 are therefore incorrect.

QUESTION 10

Organisations should ensure that their remuneration strategy originates from _____, which is established via the _____. This will ensure an effective _____ is followed for total alignment.

- 1 a strategic perspective, strategic process, compensation practice
- 2 **the organisation strategy, HR strategy, strategic perspective**
- 3 organisational objectives, analysis process, effective compensation practices
- 4 business values, annual HR audit, strategic process management

Option 2 is the correct answer. Refer to Section 2.3, “Strategic choices”, in the study guide.

The strategic process/perspective suggests that the remuneration strategy should be set by working through all channels. The business strategy should filter down to the remuneration strategy, which is established in conjunction with the HR strategy. Options 1, 3 and 4 are therefore incorrect (Bussin 2011).

QUESTION 11

Organisations use the test of _____ to determine whether their pay strategy is difficult to imitate:

- 1 **differentiation**
- 2 consistency
- 3 alignment
- 4 efficiency

Option 1 is the correct answer. Refer to Section 2.4.5, “When is a compensation strategy a source of competitive advantage?”, in the study guide.

Differentiation is used to determine whether a company’s pay strategy is difficult to imitate. Copying one or more dimensions of a strategy means ripping apart the overall approach and patching in a new one. The strategic perspective implies that it is the way programmes fit together and fit the overall organisation that is hard to copy. *Consistency* means that decisions on pay do not vary subjectively and without cause between different employees or at different times. *Alignment* is a pay structure that comprises three aspects: (1) align with the business strategy, (2) position externally with the economic and socio-political conditions, and (3) position internally with the overall HR system. *Efficiency* relates to (1) improving performance, increasing quality and delighting customers and shareholders, and (2) controlling labour costs. Options 2, 3, and 4 are therefore incorrect.

QUESTION 12

Based on the salary survey information provided, the *pay grade overlap* between Grade C and a Grade D position would be:

1	28%
2	32%
3	17%
4	27%

Option 1 is the correct answer. Refer to Section 8.2.2, “What influences the design of pay structures?”, in the study guide.

Remember that a pay overlap is the extent to which the maximum of the lower grade overlaps the minimum of the next higher grade. It is dependent on both the pay range and pay slope. The formula for the pay grade overlap is as follows:

$$\frac{(\text{Maximum of the lower grade} - \text{Minimum of the higher grade}) \times 100}{\text{Minimum of the higher grade}}$$

Based on the salary information provided, the calculation will therefore be as follows:

$$\frac{(\text{R347 000} - \text{R346 043}) \times 100}{\text{R346 043}}$$

$$\begin{aligned} &= \frac{95\,700}{346\,043} \\ &= 0.276 \\ &= 0.276 \times 100 \\ &= 28\% \end{aligned}$$

Options 2, 3 and 4 are therefore incorrect.

QUESTION 13

The pay range for Position E is:

- 1 70%
- 2 65%
- 3 82%
- 4 **79%**

Option 4 is the correct answer. Refer to Section 8.2.2, “What influences the design of pay structures?”, in the study guide.

The formula to calculate a pay range is as follows:

$$\frac{\text{Maximum} - \text{Minimum}}{\text{Minimum}}$$

You therefore have to take the maximum salary from the survey data (R1 272 038) and the minimum salary (R700 364) for the calculations.

$$\frac{\text{R1 294 038} - \text{R722 364}}{\text{R722 364}} = 0.791$$

The correct answer is 79%. Options 1, 2 and 3 are therefore incorrect.

QUESTION 14

The *midpoint spread* for a Grade B position is:

- 1 **Between 35% to 51%**
- 2 Between 34% to 51%
- 3 Between 26% to 51%
- 4 Between 27% to 51%

Option 1 is the correct answer. Refer to Section 8.2.2, “What influences the design of pay structures?”, in the study guide.

A salary range midpoint is an essential element in pay administration and, as you will recall from Study Unit 7, Table 7.2, the midpoint is also the 50th percentile in salary survey data. The calculation of the spread on either side of the midpoint can be done using the following formulae:

$$\frac{\text{Midpoint} - \text{Minimum}}{\text{Minimum}} \quad \text{and} \quad \frac{\text{Maximum} - \text{Midpoint}}{\text{Midpoint}}$$

Thus, the midpoint spread for a Grade B position is calculated as follows:

$$\frac{\text{R112 079} - \text{R83 104}}{\text{R83 104}} \quad \text{and} \quad \frac{\text{R169 536} - \text{R112 079}}{\text{R112 079}} = 0.348 \quad \text{and} \quad = 0.51$$

The midpoint spread is between 35% and 51%. Options 2, 3 and 4 are therefore incorrect.

QUESTION 15

Based on the answer in Question 14 (the pay range), Position A in the survey can be classified as a _____ position:

- 1 **clerical, technical, specialist**
- 2 higher level managerial, executive and expert technical
- 3 lower level, production and maintenance
- 4 higher level professional, middle management

Option 1 is the correct answer. Refer to Section 8.2.2, “What influences the design of pay structures?”, as well as Table 8.3, “Typical range spreads in Africa”, in the study guide.

Options 2, 3 and 4 are incorrect. The table below explains this further.

Percentage spread	Typical jobs
20 – 40%	Lower level service, production and maintenance
30 – 50%	Clerical, technical, specialist
40 – 60%	Higher level professional, middle management
60% and over	Higher level managerial, executive and expert technical

QUESTION 16

The mean salary for the Grade D position is:

- 1 R503 780.00
- 2 **R525 787.20**
- 3 R655 560.20
- 4 R525 350.00

Option 2 is the correct answer. Refer to Section 7.3.5, “Compensation survey data”, in the study guide.

The mean is most commonly referred to as the average, and is the sum of the individual figures divided by the number of items. The mean is easily understood and employees often feel it is fair to be paid the average salary. To calculate the mean, you need to add the figures of the Grade D position together, in other words R346 043 + R412 699 + R503 780 + R624 919 + R741 495, which adds up to R2 628 936. You then divide the total by 5 (the number of individual figures in Grade D): $R2\ 628\ 936 \div 5 = R525\ 787,20$. The mean salary for the Grade D position is R525 787,20. Options 1, 3 and 4 are therefore incorrect.

QUESTION 17

One of the elements of strategic compensation is to _____.

- 1 develop a positive employment relationship and psychological contract
- 2 translate business issues into compensation or HR interventions**
- 3 reward employees for the value that they create
- 4 support the development of a performance culture

Option 2 is the correct answer. Refer to Figure 2.1, “*Elements of strategic compensation*”, in the study guide.

There are four elements of strategic compensation as depicted in Figure 2.1, namely translating business issues into compensation or HR interventions; designing and delivering them with key objectives; as well as leading the resultant change process and reviewing or evaluating the outcomes. The other three options support the development of a performance culture, reward employees for the value that they create and develop a positive employment relationship and psychological contract. These form part of the aims of strategic compensation. Options 1, 3 and 4 are therefore incorrect.

QUESTION 18

Which act provides financial assistance to employees for reasons of unemployment; illness; maternity; or adoption and the dependents of a deceased employee?

- 1 Income Tax Act (58 of 1962)
- 2 Labour Relations Act (66 of 1995)
- 3 Unemployment Insurance Act (63 of 2001)**
- 4 Compensation for Occupational Injuries and Diseases Act (130 of 1993)

Option 3 is the correct answer. Refer to Section 3.3, “*Employment laws that influence compensation tactics*”, in the prescribed book.

The *Unemployment Insurance Fund (UIF)* provides financial assistance to employees for reasons of unemployment, illness, maternity or adoption. The *Income Tax (58 of 1962)* consolidates the law relating to the taxation of income and donations and provides for the recovery of tax on employees’ salaries and for the deduction by employers of amounts from the remuneration of employees in respect of certain tax liabilities. The *Labour Relations Act (66 of 1995)* provides for the deduction of trade union subscriptions, payment of employees who are dismissed based on unfair labour practices or unfair dismissal as well as limits on compensation paid. The purpose of the *Compensation for Occupational Injuries and Diseases Act (130 of 1993)* is to compensate for losses through occupational injuries and diseases at the workplace. Options 1, 2 and 4 are therefore incorrect.

QUESTION 19

As the new Compensation consultant for a new soft drinks company, you have been tasked to draft a remuneration policy which will encourage employees to contribute to the organisation's financial performance and invest sufficient time into their own performance. The policy should include all forms of rewards and include the basis of the various forms of pay. This is an example of _____.

- 1 a market lead policy
- 2 an employer-of-choice policy
- 3 a market lag policy
- 4 **a flexible pay policy**

Option 4 is the correct answer. Refer to Section 7.5, "Compensation policies and strategic mandates", in the study guide.

A *flexible pay policy* aims at focusing an employee's attention on the organisation's financial performance and on his/her own productivity. A *market lead policy* increases a company's ability to attract and retain quality employee dissatisfaction with pay by offering remuneration at a higher level than the market. An *employer-of-choice policy* deals with companies competing based on their overall reputation as a place to work for, beyond pay level and mix. A *market lag policy* can delay an organisation's ability to attract and retain potential employees due to offering remuneration at a lower level. Options 1, 2 and 3 are therefore incorrect.

QUESTION 20

When employment tests and educational requirements are used to screen potential applicants, this is an example of:

- 1 **disparate impact**
- 2 valuation discrimination
- 3 disparate treatment
- 4 access discrimination

Option 1 is the correct answer. Refer to Section 3.5.2, "Pay gap and pay discrimination", in the study guide.

Disparate impact represents *unintentional discrimination* and it occurs whenever an employer applies employment practices to all employees and this leads to unequal treatment of protected employee groups. *Valuation discrimination* occurs when minorities or women are paid less than males for performing considerably equal work (Milkovich et al 2010). *Disparate treatment* signifies deliberate discrimination, occurring whenever employers intentionally treat some workers less favourably than others as a result of race, colour, sex or national origin (Martocchio 2011). *Access discrimination* arises when qualified women and minorities are denied access to particular jobs, promotions or training opportunities. Options 2, 3 and 4 are therefore incorrect.

3 AMENDMENT TO ASSIGNMENT 02

Note that Question 3.2: "Identify and discuss the key players in setting executive compensation. What can be expected of these individuals?" counts 10 marks and Question 3.3: "Provide a theoretical

explanation for setting executive compensation and discuss the importance that the theory plays in setting executive compensations” counts 15 marks.

4 THE EXAMINATION

Refer to Tutorial Letter HRMALL6/301/4/2015 for guidelines on answering examination questions.

4.1 Format of the examination

The format of the examination paper will be as follows:

Format of the questions	Essay or case study questions
Number of questions to answer	The examination paper will consist of five (5) essay-type questions, of which you must choose any three (3) questions (25 marks each)
Duration of the examination	2 hours
Total number of marks for the paper	75 marks

The questions may be sub-divided into paragraph questions. **Note that there will be no multiple-choice questions in the examination.**

4.2 Preparing for the examination

Please use the study guide as your starting point when preparing for the examination. The study guide provides some important pointers relating to how to read the study material and which material to study. Obviously the material to be studied is important for assessment purposes.

Here are some examination preparation guidelines:

- Compile a timetable for revising the work, and arrange study leave in good time.
- Reformulate the learning outcomes as questions.
- Revise all the assignments and the guidelines for the assignments in the tutorial letters.
- Revise all the self-assessment questions at the end of each study unit in your study guide.
- Make notes on important concepts, principles and processes and test your understanding and knowledge of these.
- Plan your time to allow for more than one revision.
- Learn actively. Do not merely read the study material; practise what you will need to do in the exam. For instance, if you expect to have to answer an essay-type question, you need to practise writing essay-type answers. Answer one complete question to check how much you can write in, for example, 40 minutes so that you will know how to plan your time in the examination.
- Plan and practise drafting the framework for answers to possible questions. Spend 5 minutes sketching a quick mind map of how you would answer a 25-mark question.

Important points to remember when writing the examination:

- Make use of headings and **write legibly**.

- You are not expected to provide a table of contents, introduction, conclusion or bibliography when answering a question in the examination. Simply answer the question.
- Read through the questions carefully, and make sure that you answer the **whole** question.
- Be guided by the mark allocation for a question. Make sure that you include sufficient facts for the number of marks allocated to each question or subsections of a question. Work on the basis of one fact per mark allocated. Marks are awarded for examples only when these are explicitly required in a question.
- At the start of the examination, work out a timetable for yourself, based on the number of questions you have to answer. Depending on how many marks they are worth, allocate time slots for each question, and note the starting time for each.
- Answer a portion of each question rather than answering some questions in their entirety while leaving others out completely. Keep to your timetable.
- Prioritise. For each question that you answer, ask yourself what the essence of the question is or what the lecturers would expect.
- Make sure that you fill in your personal details on the cover page of the answer book.

Chapters to study and exam scope

You need to study the following study units (and relevant chapters in the prescribed book) for examination purposes: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11 and 12.

5 CONCLUSION

We hope that you have found the content of this tutorial letter helpful.

Note that Assignment 02 has been structured according to the outcomes-based model of learning. This structure has been deliberately chosen to expose you to the practical application of compensation concepts that you have learnt, and you may find this assignment more difficult and time consuming than the first one. When tackling Assignment 02, take the time to study the relevant sections and make sure that you adhere to the due date.

Feedback on Assignment 02 will be provided in ***Tutorial Letter HRM3705/202/1/2015***. You are welcome to contact us, either in writing or ***in person (please schedule an appointment beforehand)***, to discuss any problems you may encounter in your studies or in your preparation for the examination.

Wishing you every success in your studies!

Ms. J Lee

LECTURER: HRM3705

Department of Human Resource Management

UNISA