

HRM3705

October/November 2014

COMPENSATION MANAGEMENT

Duration · 2 Hours

75 Marks

EXAMINERS :

FIRST

MS J LEE

SECOND

MISS AM HYRA

EXTERNAL

MR MA BUYS

Closed book examination.

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue.

This paper consists of five (5) pages.

You may not consult notes of any kind, or any person, except the invigilator, during the course of the examination session.

INSTRUCTIONS

- 1 Read the questions carefully.
- 2 Write neatly and legibly.
- 3 Number all your answers clearly.
- 4 Write the numbers of the questions you choose in the allocated column on the cover of your examination answer book.

Answer *any three* (3) of the five (5) questions

[TURN OVER]

Question 1

Consider the following information and answer the questions that follow

Tom Troebel is a businessman who decided to start a new business named Toffee-Pop Roadhouse. This roadhouse will specialise in take-aways. Tom plans to employ the following personnel:

Job Category	Number of Employees
Manager	1
Admin Supervisor	1
Chefs	3
Kitchen Staff	2
Waters	5
Administrative Clerks	2

Position	Basic Remuneration
Manager	R 25 000
Admin Clerk	R 10 000
Water	R 3 000

- 1 1 With reference to the information provided in the table, develop a job hierarchy by making use of an organogram (schematic representation). (6)
- 1 2 Tom Troebel aims to incentivise his personnel when the company exceeds minimum acceptable performance standards. Discuss profit-sharing plans. (15)
- 1 3 Refer to the table and explain why the basic remuneration of waiters are less than the basic remuneration of administrative clerks (4)

Total [25]

Note: Questions 2 and 3 are based on the paragraph below.

Employee compensation trends

Globalization, outsourcing, movement from manufacturing to a service economy, and sluggish economic growth have all affected employee compensation over the past five years, said Robert Goldstone, a principal at Wellesley Consulting, who spoke at the Connecticut Business and Industry Association's 2006 Compensation and Benefits Symposium.

Low inflation and a flat economy have given employers an advantage, said Goldstone. Employees have had limited expectations as far as pay increases are concerned and unions have been less effective in influencing the workplace. At the same time, growth in the use of a contingent workforce made up of outsourcing providers, independent contractors, part timers, home workers, temporary staff, and retired employees has been outpacing real workforce growth. Finally, employers have been dealing with double digit increases in healthcare and pension expenses.

Goldstone said that these trends are being reflected in compensation structures. He said that there is a definite market linkage to base pay and believes the structure of base pay systems is reverting to more

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traditional pay practices. One way this is manifesting in compensation programs is a move away from broad banding to traditional salary grade structure with a minimum, midpoint, and maximum. He also noted that the current merit spending pattern is around three to four percent annually.

Goldstone also discussed consistency and fairness in base pay structures. In this era of small annual increases, Goldstone said, employees feel that "if you can't pay me more, pay me fairly." Therefore, internal equity and pay for performance are becoming even higher priorities and things like broad banding, skill based pay, and lump-sum merit payments are on their way out. On the other hand, growth has been observed in management incentives, key staff incentives, and multi-year cash-incentive plans.

Source: Adapted from <http://hr.blr.com/HR-news/HR-Administration/HR-Strategic-Planning/Trends-in-Employee-Compensation/>

Question 2

After reading the paragraph above, answer the following questions

- 2.1 From the paragraph above, it is clear that broad-banding is not a high priority as it used to be. Discuss why this would be the case. (10)
- 2.2 Explain the concept of equity in the compensation context. (15)

Total [25]

Question 3

After reading the paragraph on above, answer the following questions.

- 3.1 Goldstone indicated that compensation programmes moved to traditional salary grade structures. Provide a definition of a pay structure and discuss your understanding of a "traditional salary grade structure". In your discussion you should include a brief explanation on the following concepts: minimum, midpoint and maximum. (15)
- 3.2 Briefly discuss what pay for performance is (also known as merit pay) In your discussion, include the motivational theories on which it is founded. (10)

Total [25]

Question 4

- 4.1 Discuss the purposes and importance of a job analysis. In your discussion you are required to indicate how compensation links to job analysis and explain the possible limitations for building internal consistent pay systems (15)
- 4.2 Advise HR specialists on the legal considerations for job analysis in the South African context (10)

Total [25]

[TURN OVER]

Question 5

Read the following case study and answer the questions that follow on the next page:

New Age Airline

New Age Airline is one of the new of low-cost airlines operating in a highly competitive sector. Started by a gifted entrepreneur, New Age operates primarily in the African sectors. An increase in costs as well as tight margins has led to redundancies in the company as the volume of business has dipped significantly. The company is relatively unionised and pay for most staff is collectively bargained with a staff union. Pay for the airline's pilots are decided after consultation with the pilots' union. Managers' pay is set on an individualised basis, with senior executives qualifying for share options. Levels of basic pay in the company are set generally to be in the lower part of the salary market, with the salaries falling into the lower quartile range. There is a strong innovative and performance-oriented culture in this company and all staff are eligible for cash bonuses, based on corporate profitability. In the last two years, performance has not reached the necessary target levels for such payments to be awarded.

The company has decided to appoint a new business development director to lead the company's plans to develop and keep ahead of the competition. After a prolonged search a most suitable candidate has been identified, with very relevant experience in turning around a struggling British domestic airline. He is British and is very interested in taking on a more international role, based in Johannesburg. He has, however, been disappointed about the level of share options offered with the position, which are far short of those he would expect in a comparable role in the UK. He and his family have also investigated the costs of living in Johannesburg and he is asking for a basic salary of R800 000, plus share options and annual cash bonuses.

You have been appointed as a remuneration specialist to the company.

The CEO of New Age Airline has made it clear to you that he will decide on the level of basic pay to be offered, but that your input will provide important information for them in reaching a decision. You do not know the exact extent of the remuneration packages of the board members themselves – as this information is confidential and is only known to the CEO and the remuneration committee.

You have collected some salary survey data, but the job itself does not fit closely into the categories used in the main salary surveys. The surveys you have selected have the advantage of largish samples and you think that this data will be useful for making a sound recommendation.

Source. Adapted from: Wnght, Angela. 2006. Reward Management in Context. London The Chartered Institute of Personnel Development, p.104-105.

- 5.1 Identify and discuss New Age Airlines' current pay policy. Use examples from the case study to substantiate your answer. (5)
- 5.2 Identify the business strategy that New Age Airlines follows and discuss the common organisational and HR strategy that they would follow (10)
- 5.3 In order to assist you in making salary recommendations to the CEO of New Age Airline, you have chosen to collect salary survey data. Discuss why organisations make use of compensation surveys as well as the usefulness of compensation survey information. (10)

Total [25]
Total for paper [75]

[TURN OVER]

CHECKLIST	✓
Did you complete 3 questions?	
Did you complete all your personal particulars on the cover of the examination answer book?	
Did you indicate the numbers of the questions you chose on the cover of the examination answer book?	

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