

HRM3705

October/November 2013

COMPENSATION MANAGEMENT

Duration 2 Hours

75 Marks

EXAMINERS
FIRST
SECOND
EXTERNALMRS ML BEZUIDENHOUT
MISS AM HYRA
MR MA BUYS

Closed book examination

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This paper consists of four (4) pages

This is a closed-book examination. You may not consult notes of any kind, or any person, except the invigilator, during the course of the examination session

INSTRUCTIONS

- 1 **Define all the concepts in your answers** and read the questions carefully
- 2 Write neatly and legibly
- 3 Number all your questions 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

Question 1

Read the following paragraph and answer the questions that follow

Individual or Team reward?

Jack Hopson has been making wood furniture for more than 10 years. He recently joined Metropolitan Furniture and has some ideas for Sally Boston, the company's CEO. Jack likes working for Sally because she is very open to employee suggestions and is serious about making the company a success. Metropolitan is currently paying Jack a competitive hourly pay rate for him to build various designs of tables and chairs. However, Jack thinks that an incentive pay plan might convince him and his co-workers to put forth more effort.

At Jack's previous employer, a competing furniture maker, Jack was paid a piece-rate pay plan. The company paid Jack a designated payment for every chair or table that he completed. Jack felt this plan provided him an incentive to work harder to build the furniture pieces. Sally likes Jack's idea, however, Sally is concerned about how such a plan would affect the employees' need to work together as a team.

While the workers at Metropolitan build most of the furniture pieces individually, they often need to pitch in and work as a team. Each worker receives individual assignments, but as a delivery date approaches for pre-ordered furniture set due to a customer, the workers must help each other complete certain piece of the set to ensure on-time delivery. A reputation for on-time delivery differentiates Metropolitan from its competitors. Several companies that compete against Metropolitan have a reputation of late deliveries, which gives Metropolitan a competitive edge. Because their promise of on-time delivery is such a high priority, Sally is concerned that a piece-work pay plan may prevent employees from working together to complete furniture sets.

Sally agrees with Jack that an incentive pay plan would help boost productivity, but she thinks that a team-based incentive pay plan may be a better approach. She has considered offering a team-based incentive plan that provides a bonus payment when each set of furniture is completed in time for scheduled delivery. However, after hearing from Jack about the success of the piece-work pay plan at his previous employer, she is unsure of which path to take.

Source: Adapted from Martocchio, JJ. 2013. Strategic Compensation 7th Edition. Pearson Education, p. 97

You have been appointed as Compensation Consultant to assist Sally with her decision making. It is expected of you to provide Sally with

- 1.1 The conditions under which individual incentive schemes are appropriate. Provide examples with each condition. (10)
- 1.2 An explanation on the piece-work plan, highlighting the advantages of offering an individual piece work plan to the furniture builders at Metropolitan Furniture. (10)
- 1.3 An explanation on the advantages of offering a team-based incentive pay plan. (5)

Total [25]

Question 2

- 2.1 Define the concept "total rewards", provide the reasons why organisations would implement flexible benefits and give examples of the different remuneration components included in total rewards. (15)
- 2.2 Discuss the advantages and disadvantages of flexible benefits. (10)

Total [25]

Question 3

- 3 1 Distinguish between internal alignment and external competitiveness and discuss the factors influencing pay level (15)
- 3 2 Distinguish between a central tendency, the mode, the median, the standard deviation, quartiles, and percentiles (10)

Total [25]**Questions 4 and 5 will be based on the following case study:****Pay Decisions at Performance Sport**

Katie Mpofu's career objective during her study days at Gauteng University was to obtain a degree in small business management and to start her own business after graduation. Her ultimate desire was to combine her love of sports and an interest in marketing to start a mail-order golf equipment business aimed specifically at beginner golfers.



In February 2010, after extensive development of a strategic business plan and a loan of R750 000, Performance Sports was established. Based on a marketing plan that stressed fast delivery, error-free customer service, large discount pricing and pursuing cost effective solutions, Performance Sports grew rapidly. At present, the company employs 16 people: 8 Customer Service Representatives earning R125 and R150 per hour, 4 Shipping and Receiving Clerks earning R90 per hour, 2 Administrative Assistants earning R80 per hour, an Assistant manager earning R170 per hour, and a General Manager with a pay rate of R200 per hour. Both the General Manager and Assistant Manager are former customer service representatives.

Katie intends to create a new managerial position, that of Purchasing Agent, to handle the complex duties of purchasing golf equipment from the company's numerous equipment manufacturers. Also, the mail-order catalogue will be expanded to handle a complete line of tennis equipment. Since the position of Purchasing Agent is new, Mpofu is not sure how much to pay this person. She wants to employ an individual with 5 - 8 years of experience in sports equipment purchasing.

While attending an equipment manufacturer's convention in Johannesburg, Katie learns that a competitor, East Rand Sports, pays its Customer Service Representatives on a pay-for-performance basis. Intrigued by this compensation philosophy, Katie asks her Assistant Manager, George Balkin, to investigate the pros and cons of this payment strategy. This request has become a priority because just last week 2 Customer Service Representatives expressed dissatisfaction with their hourly wage. Both complained that they felt underpaid relative to the large amount of sales revenue each generates for the company.

Adapted from Snell, SA & Bohlander, GW 2012 Managing Human Resources Mason Cengage Learning, p 430

Question 4

After reading the case study above, answer the following questions

- 4 1 Katie has contracted you, a Compensation Consultant, to advise her on how to determine the pay for the new position of Purchasing Agent. Prepare a report for Katie where you explain the
- (a) Two general types of job evaluation systems that can be used (4)
- (b) Strategic decisions regarding compensation surveys (6)

4 2 George Balkin, the Assistant Manager, has requested that you assist him in investigating the pay-for-performance compensation system. Prepare a report for George in which you outline

- (a) What the pay-for-performance compensation system entails and how it differs from the compensation system currently used by Performance Sports (8)
- (b) The elements of a pay-for-performance system (7)

Total [25]

Question 5

After reading the case study on the previous page, answer the following questions

5 1 As indicated in the case study on page 3, two Customer Service Representatives at Performance Sport have expressed their dissatisfaction with their hourly wage, where “both complained that they felt underpaid relative to the large amount of sales revenue each generates for the company”
Discuss

- (a) The theories that relate to merit pay and that Katie should consider (10)
- (b) What needs to be determined before a merit pay plan can be designed (5)

5 2 Identify the (a) maturity phase and (b) general business strategy of Performance Sport and provide reasons for your answer. You also need to indicate the appropriate compensation system (10)

Total [25]

Total for paper [75]

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?	