

## HRM3705

May/June 2013

### COMPENSATION MANAGEMENT

Duration 2 Hours

75 Marks

**EXAMINERS**

FIRST

SECOND

EXTERNAL

MRS ML BEZUIDENHOUT

MISS AM HYRA

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 four (5) pages.

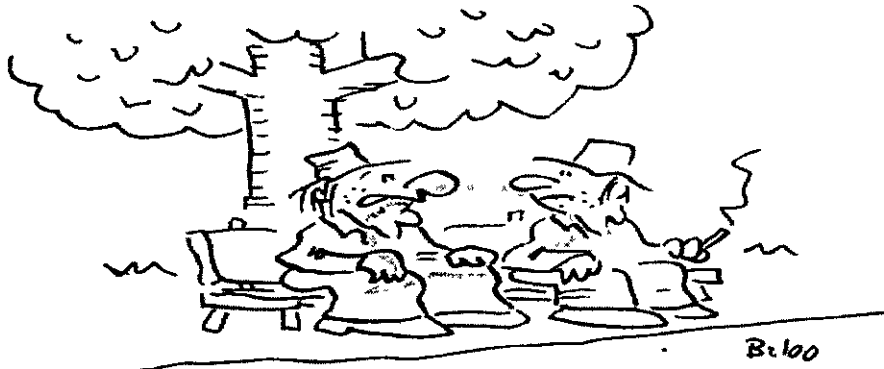
**This is a closed-book examination. You may not consult notes of any kind, or any person, except the invigilator, during the course of the examination session.**

#### INSTRUCTIONS

- 1 Answer **any three** (3) of the five (5) questions
- 2 **Define all the concepts in your answers** and read the questions carefully
- 3 Write neatly and legibly
- 4 Number all your questions clearly
- 5 Write the numbers of the questions you choose in the allocated column on the cover of your examination answer book

**Question 1**

Answer the questions that follow after the cartoon



**"I finally reached my full potential, and then they raised the minimum wage."**

Source Available from <http://www.cartoonresource.com/archive/business/employee-compensation/bhr133-bl.aspx>  
(Accessed on 13 November 2012)

- 1 1 Discuss the concept of 'minimum wage' (including the arguments for and against it) and explain why changes in minimum wages can affect higher-paid employees as well (15)
- 1 2 Discuss why organisations would be opposed to a mandated minimum wage or increases thereto (5)
- 1 3 Briefly discuss the kinds of proactive activities that a compensation professional can undertake to enhance the regulatory environment within an organisation (5)

**Total [25]**

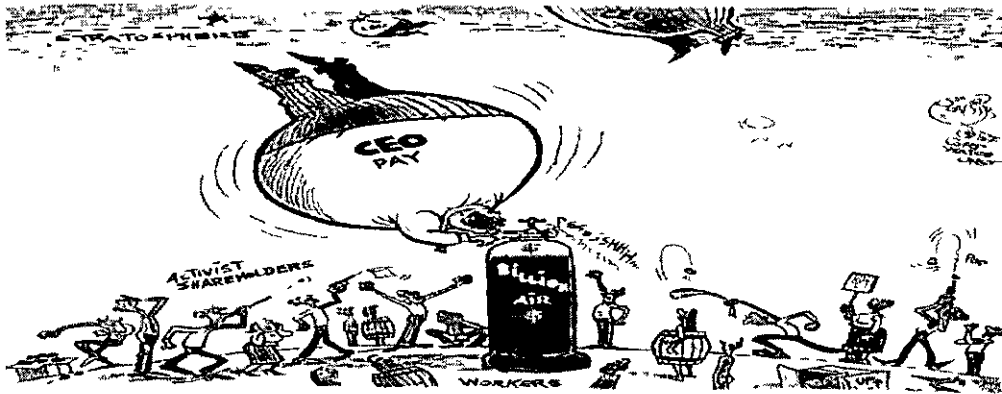
**Question 2**

- 2 1 Performance appraisals represent a company's way of telling employees what is expected of them in their jobs and how well they are meeting those expectations. Discuss the four activities that promote non-discriminatory performance appraisal practices (10)
- 2 2 Discuss the different approaches that HR managers can employ to strengthen the pay-for-performance link (15)

**Total [25]**

**Question 3**

Study the cartoon and answer the questions that follow



Source Available from <http://www.corpwatch.org/article.php?id=15743> (Accessed 13 November 2012)

- 3 1 Discuss the key players in setting executive compensation, and detail their different roles (10)
- 3 2 Provide a theoretical explanation for setting executive pay and the importance that the theory plays in setting executive remuneration (10)
- 3 3 Discuss your views on executive compensation. Is executive compensation excessive or appropriate? (5)

**Total [25]**

**Question 4**

Read the following paragraph and answer the questions that follow on the next page

**Communicating Benefits at Five Star Publishing**

With several changes in the company's health insurance options, Bheki Khumalo knew that benefits' open enrolment this year would be challenging. As the Director of Compensation at Five Star Publishing, Bheki is responsible for administering Five Star's benefits programme, including health insurance and retirement benefits. The company recently announced the changes in health insurance options and Bheki immediately received several calls from employees with questions. As a result of the changes, some employees may need to change health care providers and there will also be some additional costs to the employees. The employees rightfully have many concerns about their health insurance and Bheki is now considering a more thorough communication plan about the company's benefit programme.

Five Star Publishing was established forty years ago and has more than 1 000 employees who work in a variety of roles at this trade book publisher. The company offers a full range of benefit options including three different health insurance plans and a defined pension plan. Bheki is confident that Five Star's benefit programme far exceeds the offerings of their competitors, but he isn't sure that the employees know the value of the programme. In fact, he believes that many employees take the benefits for granted, with most employees feeling entitled to the benefits. The swift and negative response to the health insurance changes confirmed this as many employees complained that Five Star did not have a right to make such changes, with some even suggesting that it was illegal for Five Star to change their health insurance options. These employees clearly have some misunderstanding of what Five Star is required to provide and what the company offers voluntarily.

Bhekı thought the company's communication about the benefits programme was sufficient. Employees receive an informational package about the benefits programme upon appointment. The package includes a detailed outline of each benefit offered including the various insurance plans, defined pension plan, time off and other benefits. There is extensive information about each health insurance option including lists of health care providers and an outline of specific coverage for many procedures. Then, each year during open enrolment, the employees receive an updated package of information listing any changes in the health insurance plans.

- 4.1 Advise Five Star Publishing on the issues around which benefits communication revolves, as well as the primary objectives for a benefits communication programme to be effective (8)
- 4.2 You have been tasked to explain to employees the difference between discretionary (voluntary) and legally required benefits. In your discussion with them you need to distinguish between discretionary benefits and legally required benefits and provide examples of the different types of benefits (7)
- 4.3 Contrast between defined benefit and defined contribution plans (10)

**Total [25]**

#### **Question 5**

Read the following paragraph and answer the questions that follow on the next page

#### **Salary inequities at Acme Manufacturing**

Joe Black was trying to figure out what to do about a problem salary situation he had in his plant. Black recently took over as CEO of Acme Manufacturing. The founder and former CEO, Bill George, had been president for 35 years. The company was family owned and located in a small South African rural town. It had approximately 250 employees and was the largest employer in the community. Black was the member of the family that owned Acme, but he had never worked for the company prior to becoming the CEO. He had an MBA and a law degree, plus five years of management experience with a large manufacturing organisation, where he was the Human Resource director before making his move to Acme.

A short time after joining Acme, Black started to notice that there was considerable inequity in the pay structure for salaried employees. A discussion with the human resources director led him to believe that salaried employees pay was very much a matter of individual bargaining with the past CEO. Hourly paid factory employees were not part of this problem because they were unionized and their wages were set by collective bargaining. An examination of the salaried payroll showed that there were 25 employees, ranging in pay from that of the CEO to that of the receptionist. A closer examination showed that 14 of the salaried employees were female. Three of these were front-line factory supervisors and one was the human resources director. The other 10 were non management.

This examination also showed that the human resources director appeared to be underpaid, and that the three female supervisors were paid somewhat less than any of the male supervisors. However, there were no similar supervisory jobs in which there were both male and female job incumbents. When asked, the HR director said she thought the female supervisors may have been paid at a lower rate mainly because they were women, and perhaps George, the former CEO, did not think that women needed as much money because they had working husbands. However, she added she personally thought that they were paid less because they supervised less-skilled employees than did the male supervisors. Black was not sure that this was true.

The company from which Black had moved had a good job evaluation system. Although he was thoroughly familiar with and capable in this compensation tool, Black did not have time to make a job evaluation study at Acme. Therefore, he decided to hire a compensation consultant from a nearby university to help him. Together, they decided that all 25 salaried jobs should be in the same job evaluation cluster, that a job ranking method of job evaluation should be used, and that the job

descriptions recently completed by the HR director were current, accurate, and usable in the study. The job evaluation showed that the HR director and the three female supervisors were being underpaid relative to comparable male salaried employees.

Source Adapted from <http://www.chrmglobal.com/Replies/3544/1/Case-study-Compensation-and-Reward-Management.html> (Accessed on 12 November 2012)

- 5.1 Define and briefly discuss the purpose of job evaluation. In your answer you need to discuss the two goals of job evaluation, by focusing on its importance in compensation management (15)
- 5.3 Discuss what is meant with "comparable salaries" (comparable worth) and what type(s) of pay discrimination is present in the case study (10)

**Total [25]**

**Total for paper [75]**

<b>CHECKLIST</b>	<input checked="" type="checkbox"/>
Did you complete 3 questions?	<input type="checkbox"/>
Did you complete all your personal particulars on the cover of the examination answer book?	<input type="checkbox"/>
Did you indicate the numbers of the questions you chose on the cover of the examination answer book?	<input type="checkbox"/>