



STAMFORD COLLEGE

SCHOOL OF HUMAN RESOURCE MANAGEMENT

DIPLOMA IN HUMAN RESOURCE MANAGEMENT

SEMESTER 3

DHRM 413: COMPENSATION AND BENEFITS

Date : 12 March 2007 (Monday)

Time : 9.30 am – 12.30 pm

Duration: 3 hours

Instructions to Candidates

Answer FOUR out of SIX questions.

Please ensure that this examination paper contains SIX questions on TWO printed pages before you start the examination.

Books, papers and other written materials are not allowed to be brought into the examination hall. A candidate who violates the examination rules of Stamford College or commits a malpractice will be disqualified from the examination.

Candidates may use calculators provided the calculators give no printout, have no work display facilities, are silent and cordless.

Write your Examination Index Number on each page of your answer booklet.

Answer FOUR out of SIX questions.

Question 1

- (a) Outline at least FOUR reasons why an organisation needs a compensation system. (8 marks)
- (b) Distinguish between extrinsic rewards and intrinsic rewards in employee compensation. (17 marks)
- (Total = 25 marks)

Question 2

“Compensation strategies used in organisations have shifted.”

- (a) Explain the changing compensation strategies over time. (15 marks)
- (b) Distinguish the entitlement orientation and performance orientation compensation philosophy. (10 marks)
- (Total = 25 marks)

Question 3

- (a) What do you understand by “Above market strategy” and “Below market strategy” in labour market positioning. (15 marks)
- (b) Briefly distinguish base pay and variable pay. (10 marks)
- (Total = 25 marks)

Question 4

Scenario 1

“ Firm A pays \$12 per hour for 2,000 workers to work 6 hours per day for 20 weeks. The production is 600,000 units. After motivation, the 2,000 workers work 7 hours per day for 15 weeks to produce the same units.”

Using the improshare gainsharing plan, calculate the following:

- (a) Hours per unit before and after motivation. (2 marks)
- (b) The available amount of bonus pool. (4 marks)
- (c) If the company reserves 30% of the bonus, how much is each employee’s gainsharing. (6 marks)

Scenario 2

Assume accounting records show that the company expended 0.40 worth of raw materials to produce \$1.00 worth of product. Assume also that 55% of the value added was attributable to labour. Calculate the following using the Rucker Plan.

- (a) The productivity ratio. (2 marks)
- (b) The expected production value if the wage bill is \$100,000. (3 marks)
- (c) If actual production equals \$500,000, what is the value of actual savings. (3 marks)
- (d) If 75% of the actual savings is distributed as an incentive, what is the value of bonus distributed to employees. (5 marks)
- (Total = 25 marks)

Question 5

Explain the following type of salary increase:

- (a) Merit increase (6 marks)
 - (b) General increase (4 marks)
 - (c) Promotional increase (3 marks)
 - (d) Red & Blue circle adjustments (12 marks)
- (Total = 25 marks)

Question 6

How do the individual, organisation and market factors influence the financial compensation of a person at work? (25 marks)

– END OF PAPER –

MARKING SCHEME COMPENSATION AND BENEFITS

Question 1

- a) Outline at least four reasons why an organisation needs a compensation system.
- i) Legal compliance with all appropriate laws and regulations
 - ii) Cost effectiveness for the organisation
 - iii) To achieve internal, external and individual equity.
 - iv) Performance enhancement
 - v) To recruit, attract and retain quality staff. (Any 4 points x 2 marks = 8 marks)

- b) Distinguish between extrinsic rewards and intrinsic rewards in employee compensation.

Introduction (1 mark)

i) Diagram (2 marks)

ii) Intrinsic rewards
- Achieving personal goals, autonomy challenging and responsible job. (Explain) (7 marks)

iii) Extrinsic rewards
- Salary and other benefits. (Explain) (7 marks)

(Total = 25 marks)

Question 2

- a) Explain the changing compensation strategies overtime.

<p>i) Yesterday</p> <ul style="list-style-type: none"> - Fixed salary - Bonus for incentives - Fixed benefits - Reward long service - Hierarchical org. 	<p>ii) Today</p> <ul style="list-style-type: none"> - Variable pay - Bonus for performances - Flexible benefits - Reward for performance - Team- based org. 	<p>iii) Tomorrow</p> <ul style="list-style-type: none"> - Low fixed salary & variable pay - Variable pay for all - Portable benefits - Reward for skill - Virtual organisation <p>(3 points x 5 marks = 15 marks)</p>
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- b) Distinguish the entitlement orientation and performance orientation compensation philosophy.

i) Entitlement orientation

- Seniority based
- Across the board raises
- Guaranteed movement of scales
- Industry comparisons only
- Year end bonuses

(5 point x 1 mark = 5 marks)

ii) Performance orientation

- No raises for length of service
- Raises for good performers
- Market adjusted pay structure
- Broader industry comparisons
- Bonuses to tied performance

(5 point x 1 mark = 5 marks)
(10 marks)
(Total = 25 marks)

Question 3

- a) What do you understand by “Above market strategy” and “Below market strategy” in labour market positioning.
- i) Introduction on labour market positioning (1 mark)
 - ii) Above market strategy – paying wages above market wage (explain the reason to do so and the drawbacks). (7 marks)
 - iii) Below market strategy – paying wages below market wage
 - Shortage of funds, abundance of borders, low skill employees. Drawback, higher turnover, difficult to attract and retain staff but less cost. (7 marks)
 (15 marks)
- b) Briefly distinguish base pay and variable pay.
- i) Base Pay are wages and salaries
 - ii) Variable pay are bonuses, incentives and stock options (5 points x 2 marks = 10 marks)
- (Total = 25 marks)

Question 4

Scenario 1

- i) Hours per unit before and after motivation.
Hours per unit before motivation.

$$\begin{aligned} 2,000 \times 6 \times 100 \\ 2,000 \times 600 &= \frac{1,200,000}{600,000} \\ &= 2 \text{ hours} \end{aligned}$$

Hours per unit after motivation.

$$\begin{aligned} 2,000 \times 7 \times 75 \\ 2,000 \times 525 &= \frac{1,050,000}{600,000} \\ &= 1.75 \text{ hours} \end{aligned} \quad (2 \text{ marks})$$

- ii) The available amount of bonus pool.
 $0.25 \text{ hrs} \times 600,000 \text{ units} = 150,000$ (4 marks)
- iii) If the company reserves 30% of the bonus, how much is each employee’s gainsharing.
 $105,000 / 2,000 = \$52.5$ (6 marks)

Scenario 2

a) The productivity ratio

$$\frac{1}{0.6 \times 0.55} = \frac{1}{0.33} = 3.03 \quad (2 \text{ marks})$$

b) The expected production value if wage bill \$100,000.
 $100,000 \times 3.03 = 303,000$ (3 marks)

c) If actual production equals \$500,000, what is the value of actual savings?
 $500,000 - 303,000 = 197,000$ (3 marks)

d) If 75% of the actual savings distributed as an incentive, what is the value of bonus distributed to employees?
 $0.55 \times 197,000 = 108,350$
 $0.7 \times 108,350 = 75,845$ (5 marks)

(Total = 25 marks)

Question 5

Explain the following type of salary increase.

- a) Merit increase
i) After a performance appraisal of their work, employees receive increases in pay of their work record is judged meritorious. (6 marks)
- b) General increase
Based on:
i) Cost of living
ii) Inflation rate (4 marks)
- c) Promotional increase
i) Involves a change to a bigger job with higher salary range. (3 marks)
- d) Red & Blue circle adjustments
i) Blue circle salaries adjusted because the salary is below the salary range
ii) Red circle salaries adjusted because the salary is above the salary range
(explain with diagram) (12 marks)
- (Total = 25 marks)

Question 6

How the individual, organisation and market factors influences the financial compensation of a person at work.

- i) **Individual**
- Performance
- Seniority
- Experience
- Skill
- political and other relevant factors. (9 marks)
- ii) **Organisation**
- Compensation policies
- Pay leader
- Market going rate
- Organisation policy
- Ability to pay (8 marks)
- iii) **Market**
- Compensation surveys
- Cost of living
- labour unions
- society
- economy
- legislation (8 marks)
- (Total = 25 marks)

– END OF PAPER –