

World University of Bangladesh

Term Paper
On
Compensation Management
Course Code: HRM-1106

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Case – 01

Answer to the question no – 01

There are many reasons why Circuit City went bankrupt.

Though the replacement of highly paid workers with lower paid workers was one of the reasons, but it might not have been the main cause of downfall.

It began with the sales declining at Circuit City, as it started losing its market share to Minnesota based specialty electronics retailer Best Buy, the world's largest retailer Walmart, discount club stores like Costco and online retailers.

This situation coupled with the economic downturn led Circuit City to try and negotiate sale of the retail chain, but the effort was futile.

In an effort to cut costs Circuit City started firing higher paid workers and opening smaller stores.

Answer to the question no – 02

The compensation changes in Best Buy have largely affected the employee performance and the organisation. Executives leaving Best Buy are not paid a handsome amount which they deserve and there is no recalculation of the executive stock options. This has further effected its. market share and tis brand image among customers. The customer satisfaction index of Best Buy had dropped from 2009 to 1010. The primary reason being its rivals.

Answer to the question no – 03

Walmart, Sam's Club, Costco and Best Buy are retailing and wholesale corporations operating in United States.

As compared to Best Buy, Walmart, Sam's Club and Costco are known to offer better prices and variety to the customers. In addition to this, these corporations are known to have competitive advantage in terms of better management and highly skilled workforce.

Best Buy does not pay its employees sufficient compensation thus resulting in average workforce and average share in the market. Employees in Best Buy do not strive to work hard and are not extrinsically motivated.

Walmart and Costco have access to resources which Best Buy is trying to gain access to. Customers are offered exclusive memberships in Costco and Sam's Club which further attracts them.

The biggest advantage in favour Walmart and Costco is their annual revenues.

Answer to the question no - 04

Best Buy is a famous online retail store for electronic goods, where consumers order them through internet. once they receive the goods, with in a specific time period, they can check the performance and if they are not satisfied with it, they can revert them.

while customers are looking for electronic goods in Best Buy, they looks for the total features and others additional services includes in the product. once the products receives, customers will check them and if they satisfy with its performance then only they can retain those products.

of course, the compensation changes also creates some problems to them. when the prices goes up than normal market, customers may not prefer to purchase products in Best Buy.

Answer to the question no – 05

$2011 - 2015 = 4\text{years}$

$1.25 \text{ billion Cut per year; in 4 years} = 4 * 1.25 = 5 \text{ billion}$

$\text{Labor cost in 2011} = 7.053 \text{ billion}$

$\text{Labor cost in 2016} = 7.053 - 5 = 2.053 \text{ billion}$

Case – 02

Answer to the question no – 01

In this types of bidding wars, Results go in favourable side of top broking firms with hiring the most skill employees. Hiring efficient employees and surviving the competition will help the top firms earn more profits.

Losers in this wars are small firms which couldn't survive the competition.

Brokers will ultimately earn huge bonuses and salary. They will be highly benefited in this wars.

Answer to the question no – 02

Brokers earn money as per performance based incentives. Broking is an art in iteself since high broking skills will earn the wealthy customers for firm and huge investments will be involved in it. By this broker earn huge commission and fees and salary. Hence no other job is performance based but they are yearly reviewed and promoted but broking is all time performance based.

Answer to the question no – 03

Yes, I personally believe that Bank of America should include more subjective assessments of performance and a greater emphasis on cross selling.

This will increase competition and will increase the positive effect in winning the bidding wars for top firms. Ultimate effect of this is that it will effect the ability of brokers positively to work with more quality earning huge profits for firm.

Answer to the question no – 04

Merrill lynch has very good incentive and sorting effects. Incentive and sorting effects at this bank are highly objective bonus structure and Comes with huge up front bonuses. This type of strategy helps in hiring top brokers

Change in this strategy might effect the quality of brokers hired and also increase the employee turnover. Such compromise in quality will effect the competitiveness of merrill lynch and reduction of profits.

Case – 03

Answer to the question no – 01

The HR management utilizes the Economic Value Added (EVA) compensation system. In this system, the salary of the employees is usually divided into two components the fixed and variable components. The fixed component does not change with the business conditions of the organization. Variable component however is dependent on the business unit, corporate, and individual performance of the employees.

Answer to the question no – 02

The organization's ability to use a particular compensation method. Compensation management strives to ensure that an organization adopts the most economical compensation strategy to minimize expenditure on management which in turn maximizes production output and profitability of the organization.

The supply and demand for labor in the organization. Compensation management ensures that there is a balance between the demand for labor and its supply to the organization. This ensures that the organization is operating at its optimal level of the workforce for maximum productivity.

The trade unions bargaining power. Compensation management ensures there is a consensus between the organization and employees trade unions. This prevents unnecessary conflicts that would cripple the organization's activities.

The skill levels that are available in the market. Compensation management ensures that no underpayment or over-payment occurs in the organization. By

understanding the skills available in the market an employer would accurately determine the right compensations for employees.

Answer to the question no – 03

Variable compensation rewards employees based on their performance. This makes all the employees strive to achieve these rewards which means that they become more committed to working better. The variable rewards are a motivation to the employees and when the employees are motivated their performance improves. Having improved employee performance results in increased organizational productivity.

Answer to the question no – 04

Pros of EVA-based compensation

It takes into consideration all the costs involved therefore making an informed and accurate decision. The economic profit of the compensation model can be determined

Cons of EVA-based compensation

It involves complex calculations such as finding the correct cost of equity making it very difficult to implement.

EVA as a performance measurement tool

Eva is a measurement tool for the performance of an organization since it measures the value of returns from investments made. Low returns would implicate low performance and therefore is a need to change the strategy of

operation. EVA puts into consideration all the factors of production and its value which is then used to determine the organization's financial performance.

Answer to the question no – 05

The rationale behind the 1.5% cut on variable employee salary was that the targets that had been made for the third quarter of the financial year 2007 - 2008 had not been met. This resulted in the company deciding to cut the pay.

Answer to the question no – 06

Macroeconomic variables are key drivers to HR managers since they help them make strategic decisions after understanding the global economic trends. HR policies such as recruitment are greatly influenced by macroeconomic variables such as recruitment of in-demand skills. In addition to this, the currency market would enable the manager to adjust accordingly depending on the strength of the local currency. Therefore HR managers should never ignore macroeconomic policies in implementing HR policies.

Answer to the question no – 07

HR goals are very important in the achievement of the objectives of an organization. HR goals result in the development of the most suitable work-force and then through various motivation techniques maintain the human resource. Productive employees result in increased productivity of the

organization. In addition to this, HR goals balance out between the compensation of the employees and the organization's financial capability to ensure that neither the employees nor the organization is treated unfairly.