



**Examination: Human Resource Management –Final Exam (WT 2007/08)**

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Please note that in the Final Exam at hand, you will have **2 hours** to solve the problems worth a maximum of 70 points. Please consider the following general advice:

1. Use the theoretical tools and terminology you have learned in class and from the textbook.
2. Make sure there is a clear structure in your argument. (Use some time to sort your ideas before you start writing the version you want to submit, esp. if you answer B).
3. Use the time you have! If you are ready much earlier than we planned you should ask yourself whether you forgot something.
4. Remember: people have to be able to decipher what you write.
5. Leave a margin for our comments, so we can give you a more detailed feedback than just the number of points.
6. Each main question has sub-questions. Answer each one explicitly.

**Examination Questions:**

**Please solve either problem(s) A or B (maximum 70 points):**

You are welcome to use a dictionary and a calculator.

**A) Please answer only 7 out of the following 9 questions:**

**1. Hiring Risky Workers (max. 10 points)**

Assume that you have a clothing store in Magdeburg, which sells exclusive fashion to young adults. You are looking for a new sales clerk. After screening through the various applications you have received, you are contemplating between two candidates, Jack and Jill. During a night out with one of your best friends you have learned that Jack was a former employee of your friend, who has a clothing store in Leipzig. Your friend tells you that Jack was able to achieve on average € 80,000 of sales per year. When it comes to Jill, you have gathered contradictory information when contacting her former employers: there is a chance that she will be a star-seller, selling € 140,000 a year, or a disaster and scare the customers away with her rude and direct manner and thereby incurring losses of € 20,000 per year. As you do not know better, you assume both latter scenarios to occur at a probability of 50%. Suppose that both candidates are now 40 years old and can be expected to work until they are 65. Suppose further that it takes one full year to determine whether Jill is a star-seller or a disaster. The salary that would have to be paid to both of these candidates is € 25,000.

Demonstrate, by showing your calculations, whom you would hire and point out any assumptions possibly underlying your argument (interest rate zero).

**2. Tournaments and Promotions (max. 10 points)**

- a) What are the basic principles of the tournament theory? Explain.
- b) Assume there are 10 Vice President positions in a company with an annual salary of 160,000 € each. On the next higher level of the hierarchy there are 5 Executive Vice President positions with salaries of 310,000 € each. The President receives a compensation of 360,000 € per year. Calculate the strength of incentives for VPs and EVPs resulting from this design. Why could such a structure make sense in reality?

**3. Seniority Pay (max. 10 points)**

Explain in your own words as well as by using graphical illustrations what is meant by implicit loan in the context of seniority pay. Elaborate on when upwards sloping earnings profiles should be used as the primary form of employee motivation?

**4. Job Design and Authority Patterns (max. 10 points)**

Job titles define authority and hierarchical relations in a firm. Discuss the three possible ways of allocating authority. Discuss how the allocation of authority is related to the payoff structure of the firm. Connect your arguments to the tradeoff between  $\alpha$ - and  $\beta$ -errors.

**5. Buyout Plans (max. 10 points)**

Assume that due to a bad economic situation, your customers change their buying behavior; they simply do not bring in as much revenue as before. You will need to downsize your firm's labor pool in order to decrease the labor costs. The older employees of your organization seem to be the least productive ones and you will therefore offer these employees a buyout plan which will induce them to leave the firm voluntarily. The following data is available for you:

Age	Present value of decreased productivity	Present value of wages	Present value of alternatives
60	39,000	40,000	38,000
61	38,000	38,800	37,500
62	36,000	37,400	36,200
63	34,000	36,400	34,500
64	32,000	35,200	33,000

- a) Explain which variables determine a firm's buyout offer and when such an offer will be accepted by employees.
- b) Apply these general conditions to the given case. Calculate how the buyout offers for each specific age group would look like and show what would happen accordingly.

Please turn!

**6. Evaluation (max. 10 points)**

What is a 360°-Feedback-System? Discuss why this method of performance evaluation might be more accurate than others.

**7. Trust (max. 10 points)**

What is meant by trust in personnel economics? Discuss the trust relation and the potential behavioral risks from the principal's perspective.

**8. Co-Determination (max. 10 points)**

What is meant by co-determination? Discuss the costs and benefits of mandatory co-determination? Explain how German employees gain power in corporate decision making through their legal right of co-determination.

**9. International Staffing (max. 10 points)**

Discuss the three possible international staffing policies. Elaborate on when each of the policies would be used in practice. How and why does the salary of an employee need to be altered when he/she is sent to an assignment abroad?

**B) Essay (max. 70 points)**

*“What is rewarding to different people varies greatly depending on their background, expectations, values, and needs. The value of money, response to public recognition, the desire for peer and professional respect, and the need for challenging assignments all vary according to lifestyle and culture. The importance of these rewards to individuals affects their motivation, productivity, and satisfaction. A great variety of rewards is clearly called for.”*

(Jamieson/O'Mara 1991, pp. 109-110.)

Discuss the above statement using the theoretical concepts discussed in the class. Your essay should include: reasons behind the above statement, discussion on the process of motivation, and the consequences a firm's management should draw from the statement above and your theoretical discussion. Feel free to use graphical illustrations and analytical expression to strengthen your arguments.