



Examination: Human Resource Management –Final Exam (WT 2006/07)

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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 feed-back 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. Screening (max. 10 points)

Assume that you as the personnel manager are on the lookout for new employees for the overseas production of your firm. The pool of workers available is characterized by the table below indicating that the population consists of different shares of different types of workers (different in terms of productivity). Assume further that each worker has to be paid a straight salary of 24,000 € a year.

- a) Explain the basic purpose of screening in the context of recruiting in detail and point out possible screening instruments.
- b) Calculate the maximum amount you would be willing to spend on screening (if at all) per applicant in the given scenario.

Worker-Type	A	B	C	D	E	F
Share of worker-type in population	0.1	0.2	0.3	0.2	0.1	0.1
Average annual output of respective worker-type in €	0	-150,000	50,000	200,000	150,000	125,000

2. Fluctuation of Employees (max. 10 points)

Assume that the product your company is selling experiences a severe market decline. In order to cut labor costs management has decided on a downsizing project. You as the personnel manager are responsible for identifying the least productive workers. After analyzing the available data, you find that these workers happen to be the oldest ones. Your plan is to offer these employees a buyout scheme that induces them to leave the firm voluntarily. The following dataset is at your disposal

Age	Present value of decreased productivity in €	Present value of wages in €	Present value of alternatives in €
59	50,000	50,000	48,000
60	48,000	48,800	47,500
61	46,000	47,600	46,000
62	44,000	46,400	44,500
63	42,000	45,200	43,000

- a) Describe analytically and in your own words what determines a firm's buyout offer and when such an offer will be accepted by employees? What would happen if the buyout scheme was offered to all employees?
- b) In addition, apply these analytical concepts to the given case by calculating how the buyout offer for each specific age group would look like and show what would happen accordingly.

3. Reengineering (max. 10 points)

Explain the concepts of Job Enrichment, Job Enlargement and Job Rotation and use suitable examples to strengthen your argument. Highlight advantages and disadvantages of each concept from both, the employee's and the firm's perspective.

4. Probationary Periods (max. 10 points)

Jacky, the personnel manager of a medium-sized German firm, can identify different quality-levels of workers by "screening-on-the-job" and setting a probationary period of one year. During this period Jacky and her colleagues can judge workers' individual performance and decide whom to hire on a long-term contract. There are two different types of workers, type A with a market wage of 31,000 € a year and type B with 30,000 € a year. Jacky's firm only wants to attract A-type workers. B-type-workers are to be discouraged from applying. Assume further that Jacky's and her colleagues' assessment is not perfect and B-type workers, who slipped through the initial recruiting process, will only be revealed with a probability of 70 percent during the probationary period. Workers on long-term contracts are employed for additional 15 years.

Which probationary and post-probationary wages should Jacky's firm offer to induce desirable self-selection? Explain your calculations and results. How would you have to adjust the wage spread if the probability of revealing type B workers during the probationary period would increase?

5. Agency Relationships (max. 10 points)

In Human Resource Management most decisions are interactive. Explain what is meant by an agency relationship. Given the economic assumptions on human behavior, highlight the fundamental problem underlying this relationship and explain the behavioral risk(s) that might result from this problem. In the context of Human Resource Management, how can these risks be overcome in reality?

6. Investing in Human Capital (max. 10 points)

On-the-job training is a way of investing in a worker's human capital. The personnel director of General Woods Inc. is facing the decision of whether to have Frank, a 59-year-old senior worker without any outside options, participate in the next training program. The training program will take one year and incur costs of 600 € for the firm. Thereafter, Frank's productivity will rise by 200 € per year over his remaining work life.

- Provide an analytical description of what determines such a human capital investment decision.
- Assuming a retirement age of 65 and an interest rate of 4% p.a., calculate whether the investment is worthwhile for the firm.
- The training, which General Woods Inc. is contemplating about, will focus on improving general skills. What might happen after Frank has finished the training? How can this threat be mitigated?

7. Reengineering: Incentive Compatibility and Efficiency (max. 10 points)

Explain the concept of Reengineering. Subsequently, describe the notions of 'collective efficiency' and 'incentive compatibility', and their influence on the success of reengineering projects. For explaining this, use your own words as well as analytical expressions. Explain what can be done to establish an incentive compatible situation. You are welcome to use an example of your own choice.

8. Motivation and Compensation Schemes (max. 10 points)

Explain the principle of cost-utility-arbitrage with respect to designing compensation schemes. Subsequently, describe the concept of a Cafeteria Plan and name advantages as well as disadvantages of this kind of compensation scheme. What possible categories of rewards could Cafeteria Plans include?

9. Recruiting: Setting Hiring Standards (max. 10 points)

Teddy-Bear Inc. is planning to expand their toy production. Therefore, the company wants to hire additional production workers. Teddy-Bear Inc. has the option of either relying on skilled workers or hiring part time workers most of which are students. The following information is available:

	<i>Skilled Workers</i>	<i>Part Time Workers</i>
<i>Salary per year</i>	28,000 €	24,000 €
<i>€ Value of production per year</i>	120,000 €	95,000 €
<i>Training costs during the first year</i>	250 €	600 €
<i>Initial Search Costs</i>	350 €	0 €
<i>Average duration of employment</i>	5 years	3 years

- Name and explain the decisive criterion which should be used by Teddy-Bear Inc. to select between these different candidates for the vacant positions. According to this criterion, which candidates should be hired? Show your calculations and explain the hiring decision.
- The next decision Teddy Bear Inc. will be facing is how many additional workers they should hire. Describe the principle, which should guide their decision in this regard.

B) Essay (max. 70 points)

By using a graphical illustration (figure) explain in detail how institutional frameworks influence corporate governance. Discuss how labor contracts are structured in Germany. Elaborate also on employee participation and its effects on the corporate governance in German firms and discuss how the issue is handled in at least one other country.

Make sure that you use the theoretical concepts and terminology introduced during the course!

Good Luck!