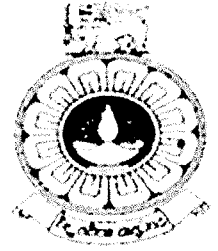


THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES
BACHELOR OF MANAGEMENT STUDIES (HONS) IN HUMAN
RESOURCE MANAGEMENT
HRU 5305: COMPENSATION MANAGEMENT
FINAL EXAMINATION – 2025/2026
DURATION – THREE (03) HOURS



Date: 28th June 2026

Time: 01.30 p.m. – 04.30 p.m.

INSTRUCTIONS:

- This question paper comprises seven (07) questions.
- Answer any five (05) questions.
- Illegible handwriting may lead to reduce marks.
- Each question carries 20 marks.

Question 01

“Galaxy Solutions (Pvt) Ltd.” is a fast-growing service organization that has recently revised its business strategy to focus on innovation and customer intimacy. The CEO believes that the current compensation arrangements do not adequately support this new strategic direction.

- a. Explain the term “Compensation Management” and state any three (3) reasons why it is a critical function in modern organizations. (5 marks)
- b. Describe how compensation can be used as a strategic tool to support innovation and customer-focused behavior. (5 marks)
- c. As the HR Manager, design a broad compensation approach for Galaxy Solutions (Pvt) Ltd. that would better align employee behavior with the new strategy. Justify your answer with appropriate arguments. (10 marks)

(Total 20 marks)

Question 02

In contemporary organizations, a clear and well-communicated compensation philosophy plays a central role in attracting, motivating and retaining talent in a competitive labour market.

- a. Define “compensation philosophy” and identify any four (4) guiding principles that organizations typically consider when formulating such a philosophy. (5 marks)
- b. Briefly explain how economic conditions and labour market dynamics influence the design of compensation packages for key talent. (5 marks)
- c. Assume you are advising a company that wants to position itself as an “employer of choice” in the industry. Propose a suitable compensation philosophy and explain how it will shape decisions on pay levels, benefits and performance-related pay. (10 marks)

(Total 20 marks)

Question 03

- a. What is meant by “bases for pay”? Mention any three (3) different bases for determining employee pay. (5 marks)
- b. Discuss the importance of ensuring fairness and compliance with laws and regulations when determining pay, referring to at least two (2) important legal or ethical concerns. (5 marks)
- c. Analyze how organizational strategy, job characteristics, employee performance and external competitiveness can jointly influence decisions about how much to pay and how to structure pay. Illustrate your answer with relevant examples. (10 marks)

(Total 20 marks)

Question 04

Many organizations are redesigning their reward systems to move beyond basic salary and to incorporate broader, more integrated forms of rewards.

- a. Define “Total Rewards” and briefly explain how it differs from a traditional view of compensation. (5 marks)
- b. Identify and explain any two (2) potential advantages and two (2) potential drawbacks of adopting a skill-based pay system in an organization. (5 marks)
- c. Critically discuss the conditions under which team-based rewards are likely to enhance team effectiveness and organizational performance, and the circumstances in which such rewards can create problems or unintended consequences. (10 marks)

(10 marks)

(Total 20 marks)

Question 05

Designing a sound compensation system requires systematic attention to internal and external factors, as well as to different forms of pay.

- a. State the fundamental purpose of a compensation system in an organization and briefly explain its significance for organizational success. (5 marks)

- b. You have been asked to design a new compensation system for a medium-sized organization that wants to ensure both internal equity and external competitiveness. Outline the main stages you would follow in this design process and explain the key activities involved in each stage.

(15 marks)

(Total 20 marks)

Question 06

- a. Describe the main categories of employee benefits, providing relevant examples from each category. (10 marks)

- b. Discuss common pay policies and explain how different combinations of these policies might impact employee attraction, retention, motivation and perceptions of fairness. Use appropriate examples to support your answer.

(10 marks)

(10 × 2 = 20 marks)

Question 07

- a. Explain how compensation strategy can be aligned with business strategy and HR strategy, and discuss the consequences of poor strategic fit in compensation management.
- b. Define internal and external equity in compensation and analyze why maintaining equity is critical for employee motivation, retention, and perceived fairness.

(10 marks)

(10 marks)

(10 × 2 = 20 marks)

(Total 100 marks)

-All Rights Reserved-