

COMPENSATION MANAGEMENT

HRM3705

Study unit 3
**Contextual influences on compensation
Practices**

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Learning outcomes of study unit 3

Once you have completed study unit 3, you should be able to:

- Discuss the employment laws that influence companies' compensation practices and how these laws impact on compensation decisions and implementation
- Apply your knowledge of the relevant legislation and their influence on case studies/scenarios
- Identify and discuss the sources of the earnings gap
- Discuss labour unions' influence on companies' compensation practices
- Discuss the concept of minimum wages and the impact this has on the compensation of employees
- Critically discuss the different influences on compensation practices

Employment Laws that influence compensation tactics

The following laws impact on compensation policies:

- The Labour Relations Act 66 of 1995
- The Basic Conditions of Employment Act 75 of 1997
- The Employment Equity Act 55 of 1998
- The Skills Development Act 97 of 1998
- The Skills Development Levies Act 37 of 2008
- The Unemployment Insurance Act 63 of 2001
- Compensation for Occupational Injuries and Diseases Act 130 of 1993
- The Income Tax Act 58 of 1962
- King III report

In terms of employment laws that influence compensation tactics, you are expected to explain how the acts mentioned above work in real-life scenarios/case studies and the influence they have on compensation decisions

What is important is that you know what the importance of a relevant act is with regard to compensation

Labour Unions as contextual influences

Unions can influence the levels of salaries and wages in the labour market in three ways:

- Collective bargaining and the strike threat
- Restriction of supply
- Increased labour demand

Influences on compensation

There are three important issues that have an influence on compensation, they are:

- Minimum wages
- Pay gap and pay discrimination
- Comparable worth

Minimum wage

- A minimum wage is the lowest hourly, daily or monthly wage that employers must legally pay employees.
- The impact of setting wages above what is determined in the market will be a decline in employment. The reason? An increase in labour costs will cause product prices to increase, the demand for these products will decline, resulting in certain jobs to be redundant.
- As legislation forces pay rates at the lowest level end of the scale to move up, pay rates at above the minimum often increase in order to maintain differentials.

Minimum wage (continue)

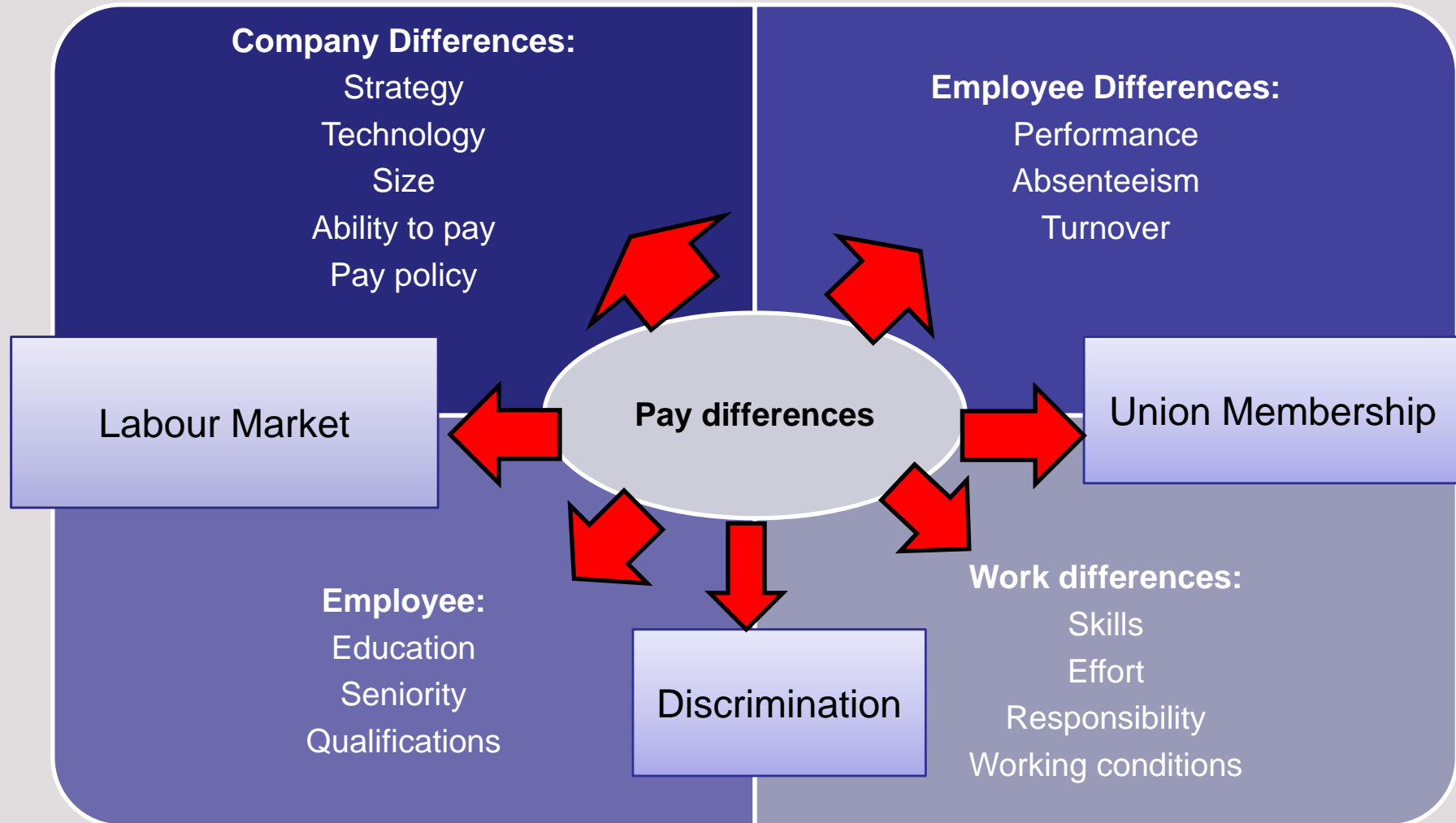
There reasons why company's may be opposed to a mandated minimum wage or increasing it:

- Labour costs increases
- Companies can then decrease their demand for workers, thus, employment opportunities may decrease

Pay gap

- Pay gap is where different salaries are paid to different employees
- In South Africa the pay gap between the lowest paid and the highest paid is very high
- During 2009, the pay gap was 1:80 = thus, the lowest paid employee received 80 times less than the highest level employee

Reasons for pay differences



Types of pay discrimination

It is “acceptable to pay employees unequal based on performance

- Access discrimination
- Valuation discrimination

This type of discrimination *may not take place under any employment conditions*

- Disparate treatment
- Disparate impact

Access discrimination

What is it?

When qualified women are denied access to particular jobs, promotions or training opportunities

This discrimination relates to **STAFFING** decisions of an organisation

Valuation discrimination

What is it?

Where women are paid less than males for performing substantially equal work.

This hinges on the standard of equal pay for equal work

Disparate treatment

What is it?

This is **intentional discrimination** where employers intentionally treat some workers less favourable than other workers because of race, colour, religion, gender and national origin.

Disparate impact

What is it?

This is **unintentional discrimination** that occurs whenever an employer applies employment practices to all employees.

It takes place when an organisation's HR policy, at face value is neutral, but has the effect of discrimination.

Comparable worth

Concept that jobs which require comparable abilities, knowledge and skills, should be paid the same salary rate irrespective of the employee's age, race, sex or any other differences.

End of study unit 3

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