

# 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 At 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:

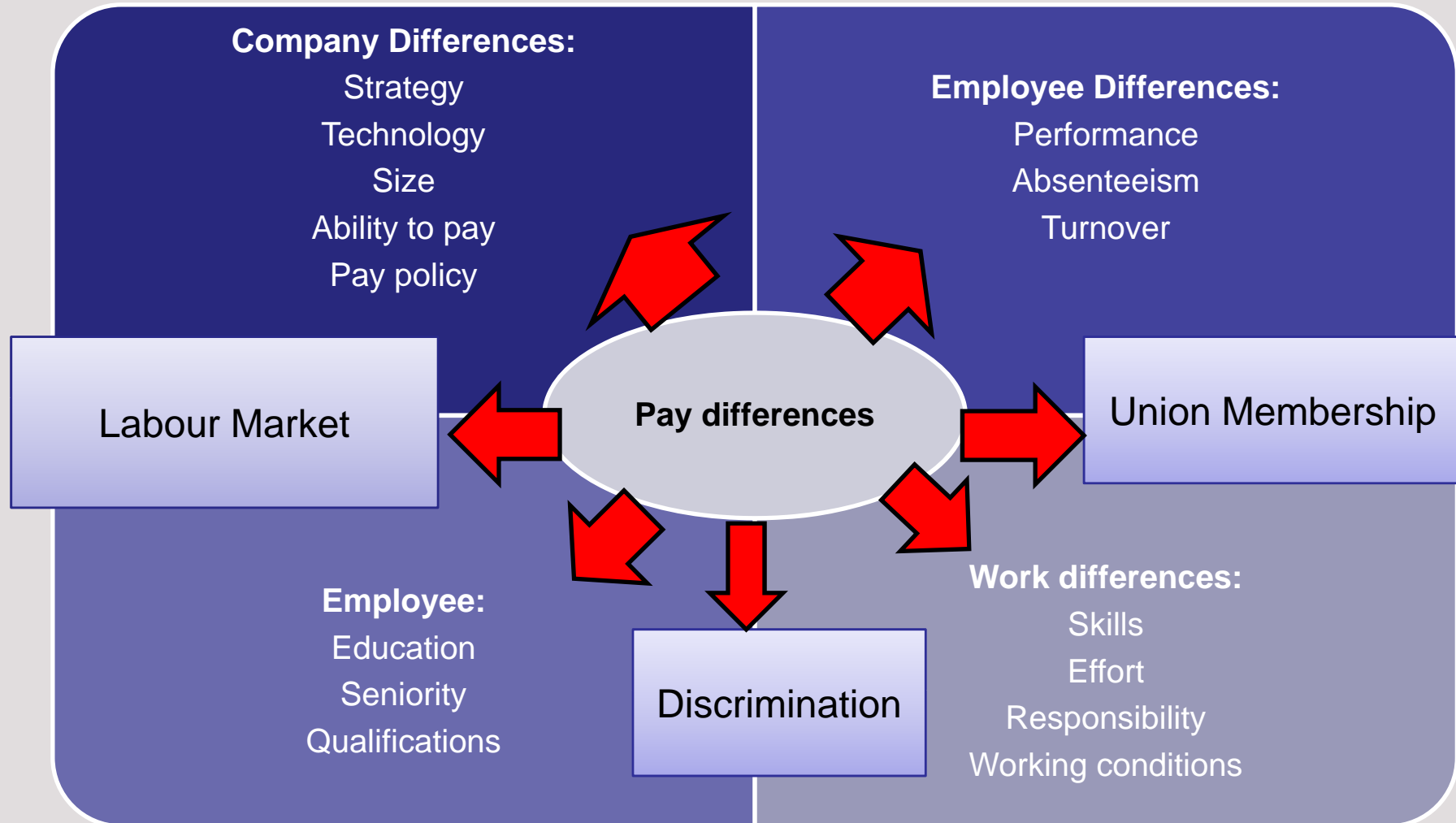
- Labour costs increases
- Companies can then decrease their demand for workers, thus, employment opportunities may decrease



# 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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