

COMPENSATION MANAGEMENT

HRM3705

Study unit 4 Traditional based for pay

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Learning outcomes of study unit 4

Once you have completed study unit 4, you should be able to:

- Compare and discuss seniority and longevity pay
- Discuss the role that performance appraisals play in merit pay systems
- Critically discuss merit pay programmes
- Discuss the different approaches to strengthen the link between pay and job performance (pay-for-performance link)

Basis for Seniority Pay

- Employees become more valuable over time
- Good employees may leave if not compensated fairly
- Rationale based on the human capital theory

Seniority Pay

- Designed to award job tenure
- Set base pay with time-designated increases
- Facilitates administration of pay
- Avoids perception of favoritism
- Poor fit with most competitive strategies

Longevity Pay

- Designed to:
 - Pay grade maximum for length of service
 - To reduce employee turnover
- Used for most government employees

Merit Pay Plans

- Pay increases based on performance
- Reward excellent effort or results
- Motivate future performance
- Helps retain valued employees

Elements of Merit Pay

- Based on objective and subjective indicators of job performance
- Periodic performance reviews
- Realistic and attainable standards
- Pay increases reflect performance

Linking pay to performance

Key to merit pay is founded in three motivational theories:

- Reinforcement theory
- Expectancy theory
- Equity theory

Pay for Performance Link

- Link appraisals to business goals
- Analyze jobs
- Communicate
- Establish effective appraisals
- Empower employees
- Differentiate among performers

Limitations of Merit Pay Programs

- Failure to differentiate
- Poor measures
- Supervisor biases
- Poor communication
- Undesirable social structures
- Using non-merit factors
- Undesirable competition
- Motivational value small

END OF STUDY UNIT 4