



The Role of Human Resources and the Main Impacts of the Payment System

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Abstract:

Human Resource management is concerned on how the people should work as effectively as possible for the organisation, and that one of the ways in which the organisation attempts to achieve this is by using an appropriate system of payment to encourage and reward them. The payment system that is adopted must be in line and support the key elements of the organisation's strategic plan.

Key Words: human resource management, organization, payment systems, rates of pay, related pays

1. Definitions Used

It will be useful to define some of the words that are mostly used when discussing about "*Payment Systems.*"

1.1. Compensation

This is often used to refer to payments, but implies that the employee somehow has to be compensated for a loss or injury caused through work, rather than that they are actually being paid to work. This seems to imply that people do not enjoy the work and so they have to be compensated for working at all.

1.2. Reward

Nowadays, it is frequently used to refer to payment systems, especially since many payment systems try to motivate people to work harder and then, reward them for their extra effort. The term or expression “*Reward*” is useful in this sense, and could apply to either monetary or non-monetary award, but it also implies that something special is being rewarded. While it is true that many payment schemes will seek to reward extra effort, this is only one part of the payment system. The term “*Reward*” also seems to imply that it is always necessary to dangle a carrot in order to get good work from an employee.

1.3. Payment

It is the most straightforward of the term and seems to be the most appropriate term to be used. It can include or cover monetary or non-monetary payment, as well as sickness payment, maternity payment and pension arrangements.

1.4. Wages

Wages tend to be paid weekly and may be based on an hourly rate of pay, with possible deductions in case of lateness or absence, and this hourly rate is often the rate that is referred to in negotiations. People that earn wages are often or still paid in cash and are less likely to have fringe benefits such as luncheon vouchers, company cars or expenses. Organisations paying wages expect short-term thinking from their employees and incentives for wage earners are also usually quick and precise. There has traditionally been less job security for wage earners than for salaried employees, and the emphasis is on a short-term relationship with the employing organisation. The peak of wage earners’ earning capacity is comparatively early, perhaps while they are still in their twenties. Wage earners perceive themselves as doing a totally different type of job from management, and expect jobs to be short term, with some degree of insecurity.

1.5. Salaries

The Salaries tend to be paid on monthly bases, and these monthly payments are normally expressed as an annual salary,

this being the figure referred to in negotiations on salary. Those who get salaries normally have their salaries paid directly into their Bank Account or other financial institution and they are also likely to have several fringe benefits, such as, company cars, extra payments for additional qualifications. Some of the workers that are paid with salaries, get immediate incentives added to their incomes, but generally the most widely held incentive is supposed to be a much longer term consideration, that of good prospects. Employees with salary, either are in managerial positions or tend to identify very closely with management, and they perceive themselves to be on a lengthy career progression with the peak of their earning power achieved relatively late in life. In addition, until fairly recently they have expected to have long-term security.

1.6. Harmonisation

There are differences in organisations' attitudes towards those paid wages and those paid salaries. Many organisations have tried to get away from the problems that this sometimes causes, and have moved towards a common system of payment with the harmonisation of terms and conditions of employment for both groups of workers.

This means that there is an expectation that all employees can be treated in the same method and will expect the same benefits. In these organisations, everyone is paid a monthly salary rather than a weekly or hourly rate of pay, and everyone gets the same sick pay and redundancy arrangements, works the same hours and eats in the same canteen.

Nowadays there is also much less job security, and career progression for salaries employees and promotion or even job security cannot be regarded as automatic, as many organisations in which salaried jobs were normally secure have moved to remove whole strata of managers. The growing trend towards the acquisition of a flexible workforce with increasing numbers of part-timers and contract workers has also led to a blurring of distinctions between the two groups.

1.7. Job Evaluation

This is a further term that is relevant to payment systems. Job Evaluation can be defined as:

“The aim of job evaluation is to provide a systematic and consistent approach to defining the relative worth of jobs within the workplace, single plant or multiple site organisations. It therefore provides a basis for a fair and orderly grading structure. Job evaluation does not determine actual pay. That is a separate operation, normally the subject of negotiation between management and trade union representatives. The job is evaluated, not the person doing it.”

Job evaluation does not actually determine rates of pay that any individual employee should receive, but it can be used as a systematic basis for determining differences in jobs and subsequently the different pay levels for those jobs.

2. The Main Impact on Payment Systems

2.1. What the organization can afford to pay

What the organisation decides to pay staff will depend on many factors, some of which are under the control of the organisation and some of which are external.

Obviously no organisation can afford to put itself out of business by paying more than it can afford, so this has to be one of the first factors that influence how much an organisation will pay.

2.2. What are other organisations paying

Most organisations will at least take account of the rates that other local organisations are paying. The organisation may refer to published pay surveys, or do its own survey of the local area to establish rates that others are paying for similar jobs. If it can afford to, and if they want to be able to select the best employees, they may choose to pay more than the going rate. This can cause a spiral of wage increases as other employers retaliate by increasing their wages. When labour is scarce this is one way in which many employers will behave.

Even when employing people on a small scale, the rate of payment can have quite an effect locally. Those who can afford to pay good wages obviously attract good staff and vice versa.

2.3. National or international rates of pay

If the organisation is part of a larger organisation, there may be national or international agreements that will affect what is actually paid, and the Human Resource Manager needs to assess these rates also.

2.4. Legislation

All organisations are affected by the law of the country in which they operate. The legislation that will have the most effect will usually cover:

1. Equal Pay.
2. Employment Rights.
3. National Minimum Wage.

2.5. Equal pay legislation

This legislation is specifically aimed at ensuring that male and female who are doing the same job, or jobs that are broadly similar in nature, will receive the same payment. Consequently it will be illegal to pay male and female doing the same or broadly similar jobs different amounts of payment.

Under the same legislation it will also be illegal to pay different rates to male and female who do different jobs, but whose jobs have been rated the same under a job evaluation scheme.

2.6. National minimum wage legislation

This legislation is specifically aimed at ensuring the establishment of a single national minimum rate with no variation for regions, jobs, size of organisation or industrial sector. Differences might be allowed, however, based on age.

2.7. Trade union and employee demands

In recent years, with a framework of legislation that has sought to curb the power of the unions and against a background of high unemployment, trade unions have not been particularly powerful forces in bargaining on wages. Nevertheless it is important to consider the views of both trade unions and employees in general, and any payment system that an organisation may design needs to be introduced after full discussion and consultation with employees and trade unions.

The most effective payment systems will have been selected to meet the needs of both the organisation and the workforce, will have the commitment of all groups and will have been developed, introduced and updated with the participation of employee representatives, whether or not they are members of a trade union.

2.8. Government initiatives

The government can have an effect on the supply of labour as it introduces various training initiatives for adults or young people who are facing unemployment. This should have the effect of providing people with relevant skills that employers need, but it also has an effect on wage expectations, since if people are used to receiving a very low training allowance they are likely to feel pleased if they get a job that is payed more than this, even if it is still a comparatively low wage.

2.9. The scarcity of particular skills

Although in recent years there has been high level of unemployment, there has also been a scarcity in some industries of particular types of skilled workers. This may be due to failure in the past to train people adequately, but it appears that there is often a mismatch between the skills that employeers require and the skills that those who are without jobs can offer. In a such situation, the relatively small number of people who do have the necessary skills can command high wages or salaries and may move from one organisation to another as different employers try to outbid each other for their scarce skills.

2.10. The state of the economy

Other economic factors such as inflation will also have an effect, as in times of high levels of inflation there will be increasing pressure from workers to increase salaries to keep pace with or get ahead of inflation.

2.11. New technology

The relative pay levels of people in different jobs can change over time, for example, when new skills have to be

learnt with the introduction of new technology, so that a particular group of workers change from being of low skill level to needing a high level of technological expertise. This change in skill level is likely to be reflected in a demand for higher wages.

2.12. The performance of the individual employee

In many organisations it will also be important to assess the effectiveness of the person doing the job. Whether this happens will depend on the type of payment system used and the organisation's views in collectivism or individualism with regard to payments. Organisations that favour collectivism will want to minimise differences in pay between employees as this may avoid costly time wasting disputes, while other organisations will want to pay everyone individual rates as far as possible in order to reward each person for his or her efforts, and these two perspectives will result in a variety of differing types of payment system.

3. Different types of payment systems

3.1. Time rates

This is the simplest of all payment systems: as the name implies, people are paid according to the time they spend at work. This may be based on an hourly rate, a weekly rate or an annual salary. In spite of all the talk of incentive schemes and movement towards a Human Resource Management approach with performance related pay systems this is still an extremely popular way for many organisations to pay people. This is largely because it is a simple system that is easy to understand and does not result in a great many industrial relations disputes. On the other hand, organisations that have moved away from this system of payment have done so because it provides little incentive to improve productivity or efficiency.

Employers vary in their beliefs about what motivates employees. Those who say that employees can be motivated by the satisfaction gained from the job itself will be concerned to provide a reasonably competitive level of pay for all employees and will not want to pay bonuses or divide the work force by performance related pay systems, so that time rates and

harmonisation of terms and conditions of employment are likely to appeal to them. The basic rate paid must be sufficiently high that it is adequate for most people's needs. If the rate of pay falls behind this level then the workforce are likely to be demotivated.

3.2. Individual payment by results (piece work)

This approach, based on individualism, reflects the view that since some people work harder than others they should be paid different amounts to reflect the differences in effort that they have made. In this system the amount that people are paid depends on how much they produce, so there are very clear criteria and a strong link between earnings and effort. This system is most common in types of manufacturing environment where it is easy to identify the products that each individual has made, or to identify clearly an individual's contribution to a manufactured product.

3.2.1. Advantages

1. There is a strong incentive to increase effort, as there is a very clear link with earnings.
2. If an increased number of tasks are completed in the same amount of time, using the same equipment, the costs per unit of output will be lower.

3.2.2. Disadvantages

1. It can be expensive to install and maintain.
2. It can result in many disagreements about standards or levels of production.
3. Production may increase at the expense of quality.
4. The emphasis on personal performance can cause friction between employees.

The system is expensive to be installed and be maintained, as there needs to be a fair system for assessing the norm for levels of production so that production over and above this level can be paid. Work study engineers are often employed to find the most efficient method of carrying out a task, managers and trade union officers may spend a great deal of time for timing different stages in the production process.

There is an emphasis in the payment by results system on providing an incentive, but also on control and measurement. Even with controls in place there can be problems.

Individual payment by results is most appropriate where:

1. It is possible to measure work.
2. It is easy to attribute it to individuals.
3. The pace of work is under the employee's control.
4. Management can provide a steady flow of work for the employee to do.
5. The work is not subject to constant changes in method, materials or equipment.

3.3. Group incentives

These are based on the same principles as the individual payment by results system, but are used when the individualistic approach is not wanted by the organisation. For example, in order to try to encourage team working or to take into account support workers who contribute to overall output, but whose contribution may be difficult to assess, some organisations introduce a system of group payment by results. The size of the group may vary from small teams or work units to the whole plant or enterprise.

3.3.1. Advantages

1. Employees see how they contribute to the whole organisation's effectiveness.
2. Employees are usually encouraged to find ways to improve performance and productivity.
3. Employees become interested in how the organisation is managed.

4. It is cheaper to install plant or enterprise wide payment by result schemes than individual payment by results schemes.
5. There is usually a need to discuss financial information with employee representatives and this can result in an improved understanding of how the company is run.

3.3.2. Disadvantages

1. There is a weaker link in employees' minds between the bonus and the level of their effort, so it may not be a strong incentive.
2. Schemes can be difficult to understand.
3. Bonus payments could be affected by factors such as inflation, which the workforce can do nothing about.

3.4. Individual time saving

Individual time saving is a further example of an individualised payment scheme. In this case, instead of basing payment on "X" pence per piece produced, an incentive is paid for the amount of time saved by the worker when he or she performs on a specific task. There is normally a standard amount of time allowed for the workers to perform a particular task or sequence of tasks, and they get an extra payment when they manage to improve on this time. This has the advantage of being able to take account of situations where the worker is not able to complete tasks because there is no work to do, for example, because of a machine breakdown. In this situation the time involved is not counted in the calculations for the incentive payment.

3.5. Measured day work

Measured day work, is another individual payment scheme. In this case pay rates are agreed at a higher rate than would normally have been paid for a time worker doing the same job, but there is an agreement that the workers will work at a specified level of performance. These levels of performance are agreed using work-study techniques and then management

carefully monitors the actual level of performance. A further variation of this is the stepped measured day work system, where a number of levels of performance are specified and workers can choose at which level to work. If their work improves they can progress to higher levels and increased pay. These systems have the advantage that the employees' pay will not fluctuate wildly on a daily or weekly basis, and so they provide for stability but they do not allow individual workers as much flexibility as to how they want to work each day.

3.6. Profit sharing

This is a form of payment scheme where the focus is on the group rather than the individual. Employees all receive a bonus whose size depends on the profits made by the organisation that year. Once again there is little direct incentive for individuals to work harder, as it is difficult to see how their contribution actually relates to the profit made, but many profit sharing schemes encourage employees to get involved with how the scheme is run. Sometimes, bonus payments are made in shares rather than cash. This is also intended to give employees an interest in the enterprise, but can result in a risk to both shares and job if the organisation does not do as well in the future. It is difficult to see this as a strong motivational force.

3.7. Performance related pay or merit rating

Performance related pay, which is sometimes referred to as merit rating, is also a way of linking an individual's pay progression to his or her level of performance or to a rating of competence. It is once again an individualistic approach, which favours rewarding people differently according to level of performance or competence, and it aims to motivate all employees and give clear indications of what the organisation expects from employees. Performance related pay differs from payment by results as it does not relate just to the quantity of a product that is produced, and may apply to workers where there is not even any end product to measure.

Initially, performance related pay was used as a motivational tool primarily for non-manual employees, but in recent years it has been extended to shop floor workers. It is

increasing in popularity, and is often introduced even when organisations are aware of the fact that money is not necessarily a motivator to all employees in all circumstances, as it is felt to be fair to pay people according to the contribution that they make to the organisation.

Performance related pay is often regarded as a key feature of performance management, and although some performance management schemes do not operate performance related pay, most do use it. While the motivational theorists cast doubt on the value of money as a motivator, many managers instinctively feel that money will motivate employees. Some organisations, even if they do not feel that it will have a strong motivational effect, introduce performance related pay as a way of being fair and rewarding high performers' past performance, and so argue that equity is the rationale for the introduction of such a scheme. The fact that performance is considered at all can also have positive effects, in that it helps to create a culture in which performance is valued and recognition of good performance can be a reward in itself. It is important once again to emphasise that performance related pay needs to be based on what can be seen to be a fair and just system of allocation, with clear objective criteria being used.

3.7.1. Advantages of performance related pay

1. Rewards the individual by linking systematic assessment of their performance to their level of pay or to a bonus.
2. The factors taken into account may be weighted to reflect their relative importance to the organisation.
3. It can be used where an incentive is needed but the actual work rate is difficult to measure.
4. It can reward factors not easily taken into account in other payment systems.

3.7.2. Disadvantages of performance related pay

1. There may be disagreements about the performance factors to be assessed, and if great care is not taken in the choice of the factors there may be claims that are too subjective or even of gender bias.
2. Bonus payments may be too infrequent to provide a direct incentive.
3. The situation described above reflects the view that there needs to be a range of different forms of incentive so that individuals can choose what will motivate them. In this case the employee might well be motivated if he was offered the opportunity to work for increased holidays.

Performance related pay can be paid in several ways, and may even involve non-financial rewards. The most commonly used financial rewards are:

3.8. Salary increases within the normal salary scale

This is a commonly used form of performance related pay and gives a clear message that although there is a fixed scale for the job and everyone's pay depends on performance, exceptional performers can progress through this scale more rapidly than others.

3.9. Salary increase above the maximum point of the normal pay scale

This is sometimes used when the organisation wants to maintain its existing incremental pay scales but also wants to reward excellent performance. In this case high performers benefit as everyone else progresses along the normal scale until they reach the maximum, but it is of no benefit to average employees who have reached the top of the scale because of the length of their employment.

3.10. Each employee is paid on an individual fixed rate, with good performers getting something extra.

In this case the individual is paid a particular rate, but there is no automatic annual salary increase. The organisation

budgets for a percentage increase each year, but then allocates this money according to assessments of employee performance, with the excellent performers receiving most, good performers getting some allocation of award and poor performers receiving nothing at all. This gives a very clear message to all concerned, and may result in those who are assessed as being poor performers leaving the organisation.

3.11. Lump sum payments that are not included in the salary

This can be added to most payment systems, and it can be argued that lump sum payment will have more impact than if the same amount were included in normal salary. This provides the opportunity to draw attention to the organisation's policy for rewarding excellence, especially if the opportunity is used for a special presentation ceremony.

3.12. Non-monetary rewards

People may be motivated by a range of different factors and may not always be motivated by being paid more money directly in their payment, especially if they lose a great deal in tax. Although we are all pleased to get more money, there is no public recognition of a job well done in that approach. This view is recognised in many organisations, which now seek to provide both monetary and non-monetary awards. The most commonly used non-financial rewards are:

3.13. Commendation

The opportunity to commend someone for the efforts that they have made can be extremely important as a way of rewarding and motivating them, whether this is done through the normal performance appraisal interview or at a public ceremony at which a letter or certificate of commendation is presented. The latter situation, with the attendant publicity, will serve as a reinforcement of the values that the organisation wishes to encourage and may also motivate others to improve their work performance.

3.14. Travel

This type of reward used to be used primarily to reward sales staff for improvements in sales, but in recent years it has

become an incentive on offer to many other individuals. Sometimes overseas travel is used as an incentive for team effort, with the whole team being rewarded with a trip abroad. This type of reward can be in the form of overseas holidays or the opportunity to attend a high profile training course held at an exotic location.

3.15. Gifts

Other gifts awarded to people who have made significant improvements in their performance include consumer items such as cameras, microwave ovens or jewellery. Once again there is the problem of choosing an appropriate range of gifts, as individuals are not likely to be motivated by the opportunity to acquire a new microwave oven, for example, if they already own one.

3.16. Gift vouchers

Gift vouchers are perhaps the most flexible form of incentive payment and are also very popular with individuals, as they offer real choice. Many high street stores promote the use of gift vouchers to organisations that are thinking of establishing this type of scheme.

3.17. Cafeteria or flexible pay systems

An even more flexible approach to pay is sometimes referred to as the “*Cafeteria approach*”, because employees can choose their own preferred reward or combination of rewards. It gives an opportunity for employers to find a pay package that will suit a diverse range of staff, whether male or female, full time or part time, and who comes from a wide age range. This can prove attractive for recruiting and retaining labour. In the “*Cafeteria approach*” the workforce are told what rewards or benefits they can choose from each year. This could mean that they could select from gift vouchers, gifts or holidays or they may prefer to choose from other benefits such as improved health care options, health or life insurance, an improved pension scheme, longer holidays or even additional cash. Companies that have introduced flexible schemes such as this have done, so, not to cut costs but to tailor their benefits to the needs of their workforce and they have found that younger staff

prefers cash or a second car; older staff prefer to improve their pensions or health cover, while staff with young families may prefer longer holidays.

In order for a flexible system to work there has to be an excellent system established for administration, and improvements in computer technology help here. There must also be an appropriate culture within the organisation and excellent communication with members of the workforce and their representatives. Not all organisations have moved towards a complete menu of options: some have felt that staff might be confused by too much choice and have gone for schemes that offer core benefits to all staff with some additional choice over certain options.

4. Conclusion

No scheme is perfect for all organisations, and all schemes have advantages and disadvantages. Each scheme gives a clear message about the values of the organisation and should be a reflection of its mission statement. The choice of payment scheme will depend on the wishes of the workforce as well as the culture of the organisation, and these should be taken into account before any scheme is introduced. The workforce should be involved in discussion, design, and implementation and review of whatever payment scheme is introduced.