

Is Pay for Performance the Best Incentive for Employees?

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Abstract

One of the most concerning issues in today's organizations is to enhance the performance of workers at their workplace. Because of technological advancements, it is a must to know about how to encourage the employees to contribute to the firm according to their maximum capabilities and skills and to increase quality based output of products and/or services. This research is important because of the prevailing pay structures of salaries in various private and public sector organizations. The author has made efforts to highlight the benefits and demerits of pay for performance as incentive to employees. The potential impact of this work is that it provides an opportunity to the experts of Human Resources Managers as well as to public and private sector organizations to adopt fair appraisal systems for rewarding their employees based on their performance at work. The research focuses on Merit Pay which is an incentive received on the basis of performance of an employee. In the modern of world of today, where money is the most sought after material, workers may be initiated and motivated to improve their work performance if they expect an extra monetary reward for the same. When salary is attached to merit, every employee in the organization will focus on the improved quality and efficiency of work done. Many researchers favor this system but it needs fair appraisal system in an organization. This research will be instrumental in ensuring that performance based reward system will be used for improving the productivity of employees.

Keywords: merit pay, incentives, employees, organizations, reward, pay for performance.

INTRODUCTION

In the current era globalization and competition, organizations are facing many challenges to maintain a competitive edge over others. Besides other necessary resources, employees are very difficult to deal with and very important assets of a company. They create ideas and implement the same in the organizations to achieve the goals of the firm. With all the technological developments in running an enterprise, human beings can never be ignored as they shape the strategy of the company and strive to implement.

Managers are worried about the turnover of their employees in search of highly paid jobs. To retain experienced employees, organizations are focused on the performance of their human resources and at the same time offering different types of incentives. Many fringe benefits include healthcare, housing, free education for the children of employees and excursions are some of the incentives which motivate the employees to stay for long time and to enhance their performance on the job. A satisfied worker is to stay in the organization and has to increase his/her performance to attain its objectives.

Besides other incentives, financial incentives can be used as a stimulus. One of the financial incentives is the merit pay or pay for performance. Many multinational companies focus on the performance of the workers as one of the main issues in HR-practices. The modern business organizations as well as many others in the public sector are no trying to remove the pension benefits or pension plans from their policies. The motto now is No permanent job for life. It has created high turnovers of employees. As they change their job frequently in search for better pays and salaries. Keeping in view this scenario, the employers have no chance to retain their best human assets but to pay on the basis of merit. It becomes necessary for Human Resources Managers to focus on this issue more than others.

STATEMENT OF PROBLEM

This research discovers the problems, pros and cons of merit pay as an incentive for increasing performance of the employees of any organization. It focuses mostly on private business enterprises.

METHODOLOGY

This work is based on theoretical framework which is related to research work in this field as well as

opinions of researchers. At the end, conclusion will focus on research gap in this field and future researchers will be given a chance to expand the same. This research not only considers the work of earlier researchers in this field but the latest contributions are also paid attention. A wide range of resources from various websites are also studied.

LIMITATION OF THE STUDY

This research is only based on theoretical framework and is limited to literature only. It is not possible to get access to primary data of private and public sector organizations. This study cannot be generalized. The author has provided an opportunity to future researchers in this field.

DISCUSSION

Many organizations have adopted this approach to get maximum work within the framework of quality and standards for the last two decades. It seems that most multinational business firms are also in favor of Merit Pay or pay on the basis of performance for their employees. It not only exceeds the expectations of workers but also provides an incentive to work for years and not to switch over their jobs for higher salaries somewhere else.

Pay on the basis of actual performance is one of the best tools for the management to avoid nepotism and to be free from the pressure of labor unions who may be very strongly opposing this incentive. As the literature shows, the office bearers of labor unions, especially in developing countries, have less interest in work and the duty hours on their jobs. The labor unions always politicize situations in the companies and would work to protect their vested interests and those of their friends and group members.

HR-Managers of many companies advocate for implementing performance based salary structure for the workers as they would be free from any stress of making policies for wage and salary administration. One of the most difficult jobs for them is to fix salaries for newly hired employees. This becomes clear to the employees that if they do not increase their performance at work, they would not get any bonus or extra annual raise in their salaries.

Investors, shareholders and family business members as well as owners of businesses are interested in quality products and/or services to be offered to their customers and to stay ahead of competition in the market. They are need of employees who perform on their jobs according to enhanced quality as well as quantity of work. This goal can be achieved only through pay based on merit.

PROS AND CONS OF MERIT PAY AS INCENTIVE

PROS:

Following are the positive points to be treated as advantages of merit pay as incentive.

- ❖ Performance related pay have greater contributions and affects at lower organizational level where responsibilities are clear. None managerial employees increase their performance at work as compared to managerial level jobs.
- ❖ Through merit pay as an incentive, management can differentiate between efficient and inefficient workers. Due many problems faced by organizations, many of the employees are laid off or compulsory retired from their jobs. Choosing amongst the employees for this purpose, pay for performance is one of the best tools.
- ❖ It provides motivation to employees to perform at an optimal level at workplace. The potential for greater compensation can boost up an employee's work performance.
- ❖ It is some sort of self determination for a worker. The employee will determine for himself or herself how much he or she has to perform on the job while participating in a system based on merit compensation or merit pay.
- ❖ Merit pay helps the employer to recognize individual performance on a one time basis.
- ❖ Merit pay creates healthy competition amongst employees and each worker will strive for getting maximum pay while having maximum performance at work.

CONS

- ❖ There are also limitations to pay based on performance. Following are the disadvantages of such a program.
- ❖ A fair performance appraisal of employees is difficult to be implemented. As the management of a company has many considerations to keep experienced employees and to retain, they may be rated very high as compared to their actual performance on job.
- ❖ Merit pay may become a reason for higher conflicts amongst the employees. Many workers, if not given pay for performance, will be demotivated and would lose interest in their work.
- ❖ This system focuses on individual performance and ignores team work so the individual goals achievements are given preference over team work and group members would be discouraged to work collectively.
- ❖ More time and energy is spent by companies in search of finding and developing better compensation system. It would rather be better

to focus on more customer services and quality improvement.

- ❖ Besides all its demerits, a performance based salary system is one of the best in determining and fixing salary for employees. A merit based performance appraisal is required for the implementation of merit pay as incentive for enhancement of work performance in an organization.

TYPES OF MERIT PAY PLANS

Many organizations use various plans for fixing the salary of their workers.

In manufacturing companies, pay per hour or pay per piece of product or part of product has been used widely and is the oldest merit pay plan.

Secondly, an organization may focus on the seniority or the market adjustment of an employee. Traditional plan is annual increase in the salaries of workers based on the annual appraisal. A third plan may be increase in the salaries permanently. Fourthly, there are increases in benefits at a percentage rate of the base salary. In this case, base salary is not increased but benefits like house rent allowance, medical insurance, education of the children of employees are focused.

CONCLUSION

Pay for performance or merit pay is one of the best programs of wage and salary administration adopted by most of the organizations at global level. It gives employers an edge to know about the best performing and worst performing employees of their companies. This system, while based on, a good performance appraisal program, can enhance the productivity of workers and at the same time provides motivations to poorly performing workers to go for improving their work performance to get more and more money.

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