

Extension Material 13.1

Issues in paying employees

Notwithstanding the importance of the conceptual and psychological dimensions of rewards, managers and HR professionals have to make practical decisions that relate to:

- the amount to pay people;
- the basis or the criteria used to pay them;
- the techniques or instruments used to help them 'manage pay' better;
- the need to minimize disagreement and conflict over pay issues.

For many people, pay is at the heart of the reward function. What follows represents some of the key issues and practices associated with managing pay.

Payment frequency

The interval at which an employee is paid varies between different organizations and positions within an organization. Many organizations pay their more senior people, and those in office-based positions, an annual amount, paid as a monthly salary, that does not vary in relation to attendance at work, except in circumstances of long-term sickness absence. Often those employees in lower-skilled or less senior posts will be paid weekly and only for the hours they have worked during the previous week. The advantages to the organization of paying employees a salary each month include that the amount remains fixed, simplifying administration of the payroll, and the employee enjoys a regular income so can arrange his or her own personal finances around this predictable monthly payment.

This system may not suit positions in which overtime—that is, time worked that is additional to the contracted level—varies and forms a significant proportion of the wage earned. Paid overtime working, at premium hourly rates, tends to be associated with hourly rates of pay and weekly pay cheques or bank transfers. If employees are also paid according to the time they are at work but not for time not worked (e.g. if late or absent), their pay will be reduced proportionately.

For salaried employees, there will be a day nominated each month as the 'pay day'. This is usually in the middle, or towards the end, of the month and the earlier in the month the date, the more likely that an overpayment will occur in the event of an employee either leaving without working notice or taking unpaid leave at short notice. For this reason, in more transient types of work, it may be more appropriate to pay weekly, based on an hourly rate.

There are also other payment frequencies that are less common, such as paying every four weeks or, if contracts for service are involved, payment may be staggered over the contract period to correspond to work completed.

A recent development that changes the traditional pattern of weekly payment relates to what are called 'annualized hours'. As the term implies, an annual hours approach to work and payment involves calculating working time on an annual, rather than a weekly, basis. The increasing numbers of employees now covered by annual hours contracts, driven by the need for greater resource flexibility and control over labour costs (annual hours effectively removes the need for more expensive overtime working), suggests that this trend is likely to continue. This development is not unproblematic and raises, among other matters, the question of appropriate payments for working at different times.

Discriminating between employees in terms of pay frequency and security has been a characteristic of UK employment practices for many years. As a result of organizations moving towards the harmonization of rewards and conditions of employment, however, more employees now enjoy, if not the same level of pay, the same or similar conditions of employment. A report into ways of building better relations between employees and management found a strong case for extending harmonization agreements and for creating high-commitment workplaces. The IPA (1997) concluded that:

Resolving reward issues around pay, hours and conditions would appear to be a more important contributor to partnership than profit sharing arrangements. If these fundamental issues are not resolved they can act as a barrier to the resolution of other key parts of the partnership agenda such as the security/flexibility trade off or the building of high commitment workplace behaviours.

It also found that:

Harmonization removes these barriers and sends important signals to staff about how they are valued. Any organization which claims that 'our people are our greatest asset' will be measured by how far the principles of single status are applied in the business.



REFERENCE

IPA (1997) 'Towards industrial partnership: New ways of working in British companies' (February), at: <http://www.ipa-involve.com/resources/publications/towards-industrial-partnership>