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PAY DETERMINATION IN RELATION TO LABOUR MARKET AND PAY STRATEGIES

Case Study

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Abstract

In industrial companies, business strategy enhances the reward policy. In other words, the surrounding internal and external factors impact it. This essay focuses on three areas: pay industrial relation differentials, how pay determination relates to the labour market and organizational pay strategies, and how other institutions, such as trade unions and states, determine pay. In industrial relations, the various pay determination systems and structures must be understood and linked to worker pay methods, pay distribution across the labour market and employer attitude in recruiting and retaining employees. Controversies relating to pay negotiations have emerged due to concerns among employees, employers, trade unions and the state. Employers have created pay strategies, including pay grading systems, time and performance-based payment structures, to increase production and organizational performance and boost their managerial right to control. Nevertheless, those pay policies have faced barriers in accomplishing manager objectives since labour market costs remain challenging to quantify and measure. This essay outlines employee expectations and their response to employer pay decisions and whether job satisfaction or dissatisfaction affects productivity, motivating or demotivating workers. It presents the negotiations exercised individually or collectively with trade unions. Finally, this essay demonstrates how some pay policies, such as time-based pay structure, are easy to form, whereas other ones, such as performance-based structures, are not so easy to develop.

INTRODUCTION

Edwards (2003, p. 189) purported that “the payment of labour is a core element of the employment relationship, and it is the most conspicuous focus of labour's collective concern”. He argued that pay embodies the “price of labour” that market influences affect (Edwards, 2003, p. 189). In companies, business strategy enhances the reward policy. In other words, the surrounding internal and external factors impact it (Redman & Wilkinson, 2009). Trade unions negotiate pay. For example, Edwards (2003) illuminated that unions played a competitive role in raising pay compared to workers confronting employers individually. Moreover, Armstrong and Murlis (2004) highlighted that the foundation of any reward system resides on its underpinning legal framework (Armstrong & Murlis, 2004). Efficiency wage theory assumes employee productivity grows with higher compensation. As a result, paying worker wages above competitive levels could foster higher market productivity and profitability. According to this paradigm, pay significantly determines production efficiency, boosting employee output (Edwards, 2003). On the other hand, from the employee perspective, this relationship might invert in that workers want to exert the least effort for maximum pay (Bach, 2005). Thus, pay is not only considered a source of income to employees but also can portray a means to increase production efficiency (Edwards, 2003). This essay focuses on three areas: pay differentials, how pay relates to the labour market and organizational pay strategies, and how other institutions, such as trade unions and states, determine pay.

LABOUR MARKET

In industrial relations, the various pay determination systems and structures must be understood and linked to worker pay methods, pay distribution across the labour market and employer attitude in recruiting and retaining employees (Kersley, 2006). Those networks enhance production and organizational performance (Bach, 2005). Various theorists have explained the significance of pay in the labour market. For example, Lipsey and Krystal (2011, p. 585) defined neoclassical pay determination as “labour’s price depends on its scarcity and wages are determined by individual productivity”. Furthermore, pay decisions depend on the dynamics between labour market supply and demand (Perkins & White, 2011). For instance, if managers pay above the labour market wages, they will either have to reduce the number of employees or cut wages to minimize labour costs (Perkins & White, 2011). However, human capital theorists have asserted “individuals accumulate human capital by investing time and money in education, training, experiences and other qualities, to increase their productive capacity and thus worth to an employer” (Perkins & White, 2011). According to Burchill (2008), when workers advance their education and skills, they secure higher pay, especially in occupations with minimal competition (Burchill, 2008). Additionally, internal and external interaction affects wages.

PAY STRATEGIES

A United Kingdom (UK) survey in 1996 indicated little association between pay strategies (performance-related and profit-related pay) and human resource work practices (teamwork, employee communication, multitasking, and single term and condition) (Redman & Wilkinson, 2009). According to Armstrong and Murlis (2004), managers may use reward systems to match their circumstances. However, legislation and laws form the foundation for any reward structure (Armstrong & Murlis, 2004). Grade hierarchically organizes employee levels, where salary structure controls pay. A grade creates band-specified pay ranges, offering an opportunity for performance-based progression (Armstrong & Murlis, 2004). Organizations can provide various pay grading frameworks reflecting diverse workforce, professionals or occupations. Firms and managers might alter and change their classifying framework to develop a proactive human resource strategy (Armstrong & Murlis, 2004). Moreover, this arrangement can comprise a single structure consisting of eight to 12 narrowly defined categories, encompassing wider bands with four to five sequences (Armstrong & Murlis, 2004, p. 193). Experts have debated how external elements influence staff recruitment and retention. However, Armstrong and Murlis (2004) highlighted the importance of job evaluation “to design equal-pay-proofed structures on the one hand and a renewed emphasis on market testing of pay levels through benchmarking” (Armstrong & Murlis, 2004, p. 193). Incomes Data Services (IDS, 2012, p. 12) illuminated job evaluation and salary benchmarking illustrated two crucial elements needed to establish a well-designed pay structure (IDS, 2012). Furthermore, job evaluation entails a ‘systematic process’ ranking occupations inside industrial organizations (Egan, 2004, p. 492). This inexact procedure can help achieve equity in pay and grading, for it shields against equal value claims (Egan, 2004). When employers see jobs as underpaid or overpaid, they can identify occupations with minimum pay (Egan, 2004). Also, Armstrong and Murlis (2004) described job evaluation could help compare work scope, revealing job fairness because it focuses on job descriptions rather than relying on subjectivity (Redman & Wilkinson, 2009).

On the other hand, this compensation framework can inherently harbor more inequality and unfairness than other pay structures. For example, individually, employees may feel underpaid compared to other groups with higher wages. Nevertheless, trade unions favour employees (Redman & Wilkinson, 2009). Notably, time-based and performance-paid networks can help employers to ensure equitable pay. A time-based structure rewards workers for showing up to work. This straightforward, easy-to-apply salary structure monitors employees through absenteeism (Bach, 2005). Conversely, a performance-based framework progresses through grades based on employee productivity, assessing workers via a performance management system and annual appraisals (Armstrong & Murlis, 2004). Performance-related pay (PRP) exemplifies a performance-based pay, rewarding employees according to target performance (Rose, 2008). However, from a pluralist perspective, PRP as a reward structure diminishes the cohesion of industrial relations (Williams & Adam-Smith, 2006). Furthermore, underperforming employees might feel backlash, particularly in teams (Burchill, 2008). Armstrong and Murlis (2004) professed PRP destabilizes collaboration. Other examples of performance-based structure include payment by results (PBR), competency and skill-based pay and profit-related pay (Rose, 2008).

Companies use numerous pay systems to motivate employees to perform better, and thus, advance productivity (Burchill, 2008). For example, Armstrong and Murlis (2004) contended effective PRP could inspire staff that appreciates linking their performance to compensation (Armstrong & Murlis, 2004). However, managers prefer to increase output with minimal workforce costs to maximize institutional profitability (Burchill, 2008). This arrangement allows employers to practice managerial operativeness unilaterally regulating employee payment (Bach, 2005). Nevertheless, the law regulates any reward system. Markedly, the national minimum wage act (NMW) of 1998 set the minimum allowable worker payment (Armstrong & Murlis, 2004; Dennis, 2005).

PAY AND EMPLOYEE EXPECTATIONS

According to Edwards (2003), the employment relationship consists of market and managerial relations. The former encompasses the labour price, including employees and basic wages. The employer, as the labour owner, encourages the employee to work. The latter, managerial relations, exemplifies performance, shaping this relationship (Edwards, 2003). Therefore, employee responses toward manager pay strategies must be recognised. Employees anticipate specific value for performing a task. Thus, employers need to match those expectations to buttress job satisfaction and commitment. Worker outlook incorporates good management, an appropriate reward system with continuous job evaluation to promote loyalty (Rose, 2008).

According to Burchill (2008), employees bargain their wages based on firm productivity and profitability and living standard. Employees argue organizational success results from their effort. As a result, they should receive an adequate salary (Perkins & White, 2011). Alternatively, Perkins and White (2011) contended, sometimes employers do not generate sufficient revenue and cannot meet employee demands (Perkins & White, 2011). According to IDS (2004, apud Armstrong and Murlis, 2004), market trends establish remuneration, and raising the pay level can pose a challenge. Moreover, this salary comparison in the labour market is based on size, location or industrial sector rate (Dennis, 2005). In any case, employees can accept the pay, negotiate with their employers or refuse it individually or collectively via trade unions. Most importantly, employers determine how much they involve workers in salary determination. In contrast, they can invoke their managerial rights to control this process exclusively (Armstrong & Murlis, 2004).

TRADE UNIONS ROLE

Employer-employee negotiations can be individual, where the worker discusses the rationales underpinning one's dissatisfaction with the proposed payment. Additionally, trade unions can support employee compensation resistance through collective bargaining (Burchill, 2008). Armstrong and Murlis (2004) described collective bargaining as a price-determining process where employees buy and sell services. This management negotiation tool depicts the most powerful pay indicator, followed by managers practicing their administrative privileges (Armstrong & Murlis, 2004). Although trade union membership has decreased, trade unions negotiate and secure the employees' interests. In 2004, approximately 40% of workers were covered by collective bargaining units compared to 70% in 1998 (Armstrong & Murlis, 2004, p. 85). Furthermore, union membership differs among industries, where its presence is more prominent in the public sector than the private sector (Armstrong & Murlis, 2004). While pay negotiation without trade unions increased to 43% in 2004 from 32% in 1998 in the public sector, this percentage in the private sector fell from 28% in 2004 to 21% in 1998 (Kersley, 2006).

Additionally, trade unions may lose their ability to protect employee interests, particularly during trying economic periods. For instance, the 2010 and 2008 economic recessions led to increased inflation and pay freezes in many institutions (Labour Research Department, 2010). Nevertheless, union bargaining benefits employees, communicating employee complaints indirectly with the employer, so institutions can listen to demands collectively rather than individually (Armstrong & Murlis, 2004). For the trade unions to help determine pay rates, they should possess high bargaining strength and robustly negotiate. Trade unions can stop the labour supply to the organization (strike) to persuade the employer to increase job compensation (White & Druker, 2009). Notably, trade unions can affect areas linked to employer decision-making, such as pay grades, remuneration within pay structure, performance-based preference and reward system polices (White & Druker, 2009). This negotiation can employ diverse approaches (Rose, 2008), like distributive, integrative, attitudinal and intra-organizational bargaining (Walton & Mckersie, 1993).

STATE'S ROLE IN PAY DETERMINATION

These negotiation methods remain vital when undertaking collective bargaining. However, governmental legislation has established worker pay (Armstrong & Murlis, 2004). The National Minimum Wage (NMW) Act issued of 1998 controlled wages in the UK, protecting employee rights by legally specifying the minimum acceptable worker salary. Furthermore, the Employment Act of 2008 has enforced this limit (Armstrong & Murlis, 2004). The first minimum wage equalled £3.60 per hour (Edwards, 2003), almost doubling to £6.08 in 2011. The NMW Act, coupled with trade unions, has addressed employee pay-related issues in employment relations (Arrowsmith et al., 2003). Other laws regulating pay entail the Equal Pay Act of 1970, the Equal Pay Amendment of 1983, the Equality Act of 2010 (Rose, 2008).

CONCLUSIONS

In the employment relationship, controversies relating to pay bargaining have emerged due to concerns among employees, employers, trade unions and the state. Employers have created pay strategies, including pay grading systems, time and performance-based payment structures, to increase production and organizational performance, boosting their managerial control. Since labour market costs remain challenging to quantify and measure, those pay policies have faced barriers in accomplishing managerial objectives. This essay has discussed employee expectations and their response to employer pay decisions and whether job satisfaction or dissatisfaction affects productivity, motivating or demotivating workers. Moreover, this essay outlined the negotiation activities exercised individually or more collectively, incorporating trade unions. Furthermore, trade unions bargain based on work environments and settings. Some government legislation, such as the 1998 NMW Act, the 1970 Equal Pay Act, and the 2010 Equality Act, were briefly discussed, addressing how they have moulded the labour market pay network in the UK and built employer pay policies. Finally, this essay has demonstrated how some pay policies, such as time-based pay structure, are easy to form, whereas other ones, such as performance-based structures, which trade unions view as subjective, are not so quickly developed.

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