Setting pay

Every employer knows just how important wages are to recruiting and keeping good employees. So how best to go about setting rates of pay?

There are three important factors to consider when it comes to establishing the rate at which a business pays its employees.

Rates of pay should be at levels that are affordable by the employer; that are capable of attracting employees; and that comply with the law.

Wages are often a firm's largest overhead. An employer must balance the need to keep labour costs manageable while also offering the sort of pay that attracts good recruits, and that motivates and encourages loyalty among existing employees.

There are in addition legal requirements that must be met. These include: observing the National Minimum Wage and not discriminating against workers by paying them less simply on the grounds of their gender.

Pay schemes?

There are two ways of paying employees: the basic pay scheme and the incentive pay scheme.

Under the first, the basic pay scheme, employees are paid a set sum which is calculated according to the number of hours, days or weeks that they work.

Under the second, the incentive pay scheme, employees are paid, usually in part but sometimes wholly, according to their skills, performance, productivity, results or profitability, either as individuals or as a group.

Choosing which system best suits a firm will depend on the nature of the business and the importance that staff motivation plays.

While the incentive pay scheme may cost more money to operate, it has the advantage of encouraging either individual or group performances.

Commission, bonuses and tips?

Commission, bonuses and tips are used to top up the basic wages of employees and to promote productivity.

Commission is usually paid to reflect the performance of individual workers, while bonuses generally reflect the overall performance of the firm. Tips and gratuities, if they are not paid directly to an employee by a customer, can be shared among all workers via a pool fund or as a percentage share of any service charges made.

Whatever system is used, it is essential that all employees understand how their pay is calculated. Pay systems that are not clear, transparent or fair can lead to tribunal claims.

It is also important to bear in mind that not all employees are going to be equally motivated or incentivised by financial rewards. Increasing numbers of employers are recognising that other rewards, such as training, regular consultations and flexible working patterns, are just as effective methods of encouraging staff loyalty as bonuses and generous pay offers.

Levels of pay?

Setting levels of pay for a workforce has to take into account both the market rate for particular jobs and the legislation that governs the payment of workers.

The best way to establish a competitive rate of payment is to assess pay levels in other comparable businesses, either on a regional basis or on an industry basis.

Living costs mean that, depending on their location, some firms need to pay slightly more than others for the services of particular workers. In the same way, certain skills within an industry may be in high demand and so attract higher rates of pay. Other factors that may affect how much a firm pays its employees can include the strength or otherwise of the labour market and the demand for goods or services.

Getting pay levels right is clearly important if a business wishes to attract employees with the appropriate skills and experience. A good way of making a helpful comparison is benchmarking: there are a number of benchmarking services available, and they can be accessed through trade or regional business organisations.

National Minimum Wage?

However an employer chooses to set their rates of pay, they must comply with the law on the National Minimum Wage. The National Minimum Wage establishes the minimum hourly rate that workers of certain ages must be paid.

Equal pay?

As well as the National Minimum Wage, there is legislation governing equal pay. The law states that both men and women must be paid equally for carrying out similar work, equivalent work or work of equal value. This applies to basic earnings, bonuses, holiday pay, unfair dismissal, compensation and pension contributions.

Where work is judged to be equal, an employer must pay men and women the same. An earnings gap can be only be defended if the employer is able to prove that the difference is down to some material factor and that it has nothing to do with the employee's gender.

One way to confirm if two jobs are similar, equivalent or equal is to conduct a job evaluation. The purpose of a job evaluation is to compare jobs for the skills they require and the responsibilities they carry. This will allow an employer to identify those jobs that, while perhaps different, should have parity within the company pay structure.

Ideally, a business should already have an equal pay policy in place. The more structured a pay system, the more transparent it will be, and the easier it will be to review for any discrepancies in pay between men and women who do equal work.

To find out if its pay system is treating all employees fairly, a business should implement an equal pay review. There is more information on how to do this at the Commission for Equality and Human Rights website: http://www.equalityhumanrights.com/
