Code: 0413-4102

Compensation Management

Traditional Bases for Pay:

Analyze the traditional bases for pay such as seniority and merit systems

One of the most important decisions in Human Resource Management is how employees should be paid.

Organizations generally determine employee pay based on several factors, including:

- ✓ Skills
- ✓ Experience
- ✓ Job responsibilities
- ✓ Performance
- ✓ Length of service

Traditionally, organizations have relied mainly on two systems:

1. Seniority-Based Pay
2. Merit-Based Pay

These are known as the Traditional Bases for Pay.

1. Seniority-Based Pay System

A seniority pay system rewards employees according to their length of service (years worked) in an organization.
The longer an employee stays, the higher the salary becomes.

More Years of Service = Higher Pay
Performance is usually not the primary consideration.

Suppose a university hires two lecturers.

Employee	Joining Year	Performance	Monthly Salary
Lecturer A	2015	Average	Tk. 75,000
Lecturer B	2022	Excellent	Tk. 55,000

Although Lecturer B performs better, Lecturer A receives a higher salary because of longer service.

Government Service

Bangladesh Civil Service (BCS)

Salary increments often occur annually according to government pay scales.

An officer with 15 years of service usually earns more than a newly appointed officer.

Advantages of Seniority Pay

1. Simple to administer

No complicated performance evaluation is required.

2. Reduces favoritism

Employees know that promotions and pay increases depend mainly on years of service.

3. Encourages employee loyalty

Employees stay longer to receive higher pay.

4. Reduces turnover

Workers are less likely to leave the organization.

Disadvantages of Seniority Pay

1. Ignores performance

Excellent employees may earn the same as average performers.

2. Reduces motivation

High performers may feel unrewarded.

3. Encourages complacency

4. Difficult for innovative organizations

Modern organizations require high performance rather than merely long service.

Case Example

Imagine a bank.

Employee X:

- Worked for 20 years
- Average performance

Employee Y:

- Worked for 5 years
- Increased branch profits by 40%

Under a seniority system, Employee X receives a higher salary despite Employee Y contributing more to organizational success.

Is this fair? Why or why not?

2. Merit-Based Pay System

A **merit pay system** rewards employees according to **their performance and achievements.**

Employees who perform better receive higher salary increases or bonuses.

Better Performance = Higher Pay

A sales company evaluates salespersons

Employee	Annual Sales	Performance Rating	Salary Increase
A	Tk. 15 million	Excellent	15%
B	Tk. 10 million	Good	8%
C	Tk. 6 million	Average	3%

Higher performance results in greater salary increases.

Three lecturers teach the same course

Lecturer	Student Feedback	Research Publications	Salary Increment
A	Excellent	8	High
B	Good	4	Moderate
C	Average	1	Low

Pay increases depend on performance rather than years of service

Advantages of Merit Pay

1. Encourages high performance

Employees work harder because good performance leads to higher pay.

2. Rewards excellence

Outstanding employees receive recognition.

3. Improves productivity

Employees become more focused on organizational goals.

4. Supports innovation

Creative employees receive incentives for their contributions.

Disadvantages of Merit Pay

1. Performance evaluation may be biased

Managers may show favoritism.

2. Difficult to measure performance

Not every job has measurable outcomes.

Example:

How do we objectively measure the performance of a university lecturer?

3. May reduce teamwork

Employees may compete rather than collaborate.

4. Employees may feel unfairly treated

If evaluations lack transparency, dissatisfaction can arise.

Seniority vs. Merit Pay

Feature	Seniority Pay	Merit Pay
Basis	Length of service	Job performance
Focus	Experience	Achievement
Motivation	Stay longer	Perform better
Evaluation	Years worked	Performance appraisal
Fairness	Equal opportunity over time	Rewards high performers
Common Use	Government, unions, public sector	Private companies, sales, technology firms