

# Free article review about strategic impact merit pay: a review

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A journal article by Newman and Fisher entitled “ Strategic Impact Merit Pay” was published in Compensation & Benefits Review in 1992. The authors devised an alternative approach to the pay for performance system called Strategic Impact Merit Pay (SIMP) in which employee behavior is considered in the calculation of compensation. The abstract is brief and concise, adequately presenting the argument of the paper.

The objective of the article was not clearly stated although it criticizes traditional merit pay systems to provide rationale for the creation of SIMP. A number of advantages of a SIMP plan were listed such as requisition of good performance to be able to receive merit pay regardless of seniority. Only two disadvantages were identified by the authors: SIMP is more expensive than the traditional lump-sum award system and total compensation of the employee is not competitive with other companies that continue to utilize traditional merit pay and lump-sum grants.

Increased productivity and improved punctuality would be observed from both employers and employees since SIMP greatly rewards behavior that produces long-term benefits to the organization. Initiative and creativity would flourish improving the overall performance of the staff and people in high tier positions would be challenged to live up to their titles in order to maintain their high compensation fees. Precedence in the organization would not be an issue thus providing equal opportunities to new employees especially to those who are at par with their superiors.

Short-term benefits provided by SIMP would motivate workers not to idly wait for their lump-sum bonuses. They would have to work hard and actually earn it sooner which would translate into higher monthly net income. Supervisors

would be required to send immediate feedbacks to their team and this would be greatly appreciated for character building.

On the other hand, assumptions are rife in this article. While overly promoting SIMP as a better model for merit pays, the authors did not even attempt to provide a measurement of employee performance based on their time impact. The system would thrive in a perfect scenario but it would not be able to cope up with real-life situations faced by a company.

Newman and Fisher also stated that a chief benefit of SIMP application is that employees have a strong incentive to challenge vague strategic plans formulated by higher-ups. Perception of employees regarding plans may vary and what is clear to one employee may not be so clear to him after all as time passes by whilst other employees already pointed out the flaws. This situation may lead to decreased compensation of the left-out employee since he apparently did not have the initiative to point out the ambiguities in the plan.

## **Reference**

Newman, J. M. & Fisher, D. J. (1992). Strategic Impact Merit Pay.

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Review, 24(4), 38. <http://dx.doi.org/10.1177/088636879202400409>