Common merit vs anniversary date

Annual Merit Increases: Common Merit vs. Anniversary Introduction

According to the Business Dictionary (2008), a merit increase is a higher wage rate paid to an employee on the basis of an agreed upon criteria such as efficiency and performance. The common practice of most organizations is to plan merit increase budgets for the year according to the company's ability to pay higher wage rates. Over the past four years, merit increases in the United States have ranged between 4-5% (Ojimba, 2008). Thus, the size or amount of merit increases is commonly based on the employee's job performance and the company's performance. Company practices of granting merit increases are usually pre-defined in compensation and performance evaluation policies and procedures, which indicate the frequency of performance reviews; evaluation standards, criteria, measures, and rating scale; and equivalent percentage increases according to ratings. The merit date is the date at which an employee is eligible for a performance evaluation and a merit increase (Chesterfield, 2008). There are two popular ways for administering annual merit increases, either using a common merit date for all employees or o common ways or by using by using the employee's anniversary date of hire.

Annual Merit Increase Using the Anniversary Date of Hire

One practice for administering the annual merit increase is by using the employee's anniversary date of hire. This means that one year after the employee was hired, he/she becomes eligible for a performance evaluation and a merit increase, and then every year thereafter, on his/her anniversary date. The advantage of using the anniversary date of hire as against a common merit date, is that it ensures that an employee has been given a full 12-month period to exhibit the job performance he/she will be evaluated on.

Considering the length of the period, the employee would be able to improve performance over the course of the months or remedy any bad performance exhibited within ample time till the evaluation date. For the company, planning, implementing and monitoring the evaluation process and the granting of merit increases using the anniversary date would mean a lot more work as anniversary dates would be different from employee to employee. Schedules of performance evaluation have to be pre-defined for each employee according to his/her anniversary date, tracked, and monitored for completion, usually a joint responsibility of the HR department and the immediate manager. The greater the number of employees of a company, the more work it would entail. For managers with a number of subordinates to evaluate, it would also mean more work, to keep track of the 12-month period for each subordinate. And conducting the performance evaluation at various times within the year for the different subordinates may be disruptive of operational workflow. Moreover, budgeting for merit increases would have to be plotted against the months of the year for more realistic cash flows.

Annual Merit Increase Using a Common Merit Date

An alternative practice for administering annual merit increases is by using a common merit date. The company sets a specific date or period in the year for when the entire organization will conduct performance review of all employees at the same period and grant the merit increases on a single date. Using a common merit date provides better control over compensation expenses. The common merit date may also be aligned with the company’s fiscal year, so that compensation expenses are directly linked to the company’s performance. This practice allows the company to first determine its performance for the year, thereby being more in a position to decide on the size of merit increases it can grant. Another advantage of the common review and merit dates is that it helps ensure that employees are treated equitably and fairly because everyone is being considered at the same times and under the same circumstances (Sheedy, 2007). One problem in using the common merit date is for employees who were hired less than 12 months prior to the first review cycle. They are either given a shorter period of consideration for review, meaning less than 12 months; or the opposite, which is a longer period of more than 12 months. In the first case, the employee would need to exhibit good performance in less time than other employees to be able to merit a good rating. In the second case, the first merit increase eligibility may be delayed till after the first evaluation period.

Conclusion

For all intents and purposes, the common merit date practice would be more beneficial to the organization than the one using the anniversary date. To remedy the situation of shorter evaluation period, most companies implement a cut-off hire date for employees who were hired less than 12 months from the common merit date. For example, a 6-month cut-off may be implemented and communicated to all new hires prior to their acceptance of their engagement. Those who were hired at least 6 months prior to the common merit date would be advised of their eligibility for evaluation and merit increase during the next common merit date schedule and then every 12 months thereafter. Those who were hired less than 6 months prior to the common merit date will be eligible for evaluation and merit increase on the next common merit date immediately after the first review cycle, which may mean a period of 13-17 months. After this initial cycle, all employees would then be eligible for regular evaluation and merit increase every 12-month period. Some companies have implemented a pro-rated merit increase scheme to mitigate feelings of having lost out by employees falling under the second case (Sheedy 2007).

References

Business Dictionary. (2008). Merit increase. BusinessDictionary. com. Retrieved December, 18, 2008, from http://www. businessdictionary. com/definition/merit-increase. html.

Chesterfield County. (2008). Policies and procedures for the administration of the 2008-2009 classification and compensation plan. Retrieved December, 18, 2008, from http://rds. yahoo. com/_ylt= A0oGkkCKVUpJUfgAX. lXNyoA; _ylu= X3oDMTByZWgwN285BHNlYwNzcgRwb3MDMQRjb2xvA3NrMQR2dGlkAw--/SIG= 12su12680/EXP= 1229694730/**http%3a//www. chesterfield. gov/HumanResourcesManagement/FY09PayPolicies. pdf.

Ojimba, E. (2008). Salary talk. Salary. com. Retrieved December, 18, 2008, from http://www. salary. com/personal/layoutscripts/psnl_articles. asp? tab= psn&cat= cat022&ser= ser031∂= par111.

Sheedy, P. (2007). Benefits and compensation. Hiring Hub. Retrieved December, 18, 2008, from http://www. boston. com/jobs/hr/hrexpert/articles/101105. shtml.