Impact of salary increase on employee motivation

Perhaps one of the most important factors to motive and retain employees is salary increase. A study in 2010 found out that twenty seven percent of highly skilled employees were not satisfied with the current monetary compensation for their works, and they planned to quit their job eventually to find higher-paying jobs. (Snell, & Bohlander, 2013, p. 438). However, distributing salary raise fairly while not creating sense of pay inequity among the employees and following the budget at the same time is definitely not an easy task for supervisors and managers. The conventional human resources practice suggests that using performance-based criteria to determine the raise is the most justifiable method. However, as a wise and understanding manager or supervisor should take other information such as family circumstances and employee's working relationships into account when determining salary raise.

There are two way to apply the merit-based raises: the percentage method and the actual amount of dollars. (BizFilings. com, 2012). For the percentage method, I will rank employees' performance and determine the raise percentage each person gets using that rank

For example

Performance appraisal	Percentage of raise
Very high	5%
Above average	3%
Average	2%

Below average   <2% or none

According to the table I made above, Janet (who makes $41, 000) and Paula (who makes $28, 850) will get the raise of $2050 (41, 000*5%) and $1425 (28, 850*5%) respectively based on their performance appraisals. Russell whose performance was average will receive $720(36, 000*2%); Rick whose performance was above average will get $840(28, 000*3%). Assuming Jack will also get the raise of 2% even though his performance was below average, then he will get $625 (31, 250*2%). In total, we will need $5, 660 to give all five employee raises, which is within the budget.

The second method to calculate the merit-based raise is to use the actual amount of dollar. I will take the total amount of budget and divide by the number of employees to find the average pay raise. I would still use the job performance to rank the employees. The employee who is in the middle of the rank will receive the average raise, the two employees who are ranked higher will get higher ratio of average raise, and the remaining two employees will get lower ratios.

The average raise: $5, 780 / 5 = $1, 156

Name	Performance	Average raise ratio	Amount receive
Janet	Very high	1. 3	$1, 502
Paula	Very high	1. 3	$1, 502

Name	Performance		
Rick	Above average	1. 0	$1, 156
Russell	Average	0. 8	$925
Jack	Below average	0. 6	$578

Even though the two methods are legitimate ways to calculate pay raises.

There are some distinguish differences to them

Name	Performance	Percentage method	Amount method
Janet	Very high	$2, 050	$1, 502
Paula	Very high	$1, 425	$1, 502
Rick	Above average	$840	$1, 156
Russell	Average	$720	$925
Jack	Below average	$0~625*	$578

With the percentage method, because Janet's base salary was so high, she would receive more than $2, 000 which is 50% more than Paula's even though their performances are the same. This would definitely cause other employees to raise their eyebrows; they would think she receives more because she has children. Paula's raise will also be too high, her relationship with other employees was already not so good, and this could make other employees feel uncomfortable. We also have to make the choice whether to give Jack a raise or not, if we do how much should be enough? It's not easy to make everyone satisfied if we choose the percentage method. After all, a merit-based system only works if everybody believes in its fairness. In conclusion, I think using the amount of dollars method is the safest choice. Not only will nobody be left out, but we can also make sure the budget is utilized to the fullest.

References

Snell, S., & Bohlander, G. W. (2013). *Managing human resources* . Mason, OH: South-Western.

BizFilings. com (2012, May, 24). *What to Take Into Account When Giving Employees Raises* . Retrieved fromhttp://www. bizfilings. com/toolkit/sbg/office-hr/managing-the-workplace/employees-raises-what-to-take-into-account. aspx