Internal and external pay equity

Business

Internal and External Pay Equity Introduction When an employer matches the pay of an employee with the value of the job, the pay equity is known as internal. If the employer matches the pay with the other labor market, the pay equity is known external. This paper will analyze the importance of managing both internal and external equalized pay and the role it plays when it comes to employee satisfaction.

Importance and Consequences

Comparing the wages among the industry enables the standardization of wages to ensure no employee is overpaid or under paid. Basing the wages on the value of the job implies that the employee is duly paid for the skill and abilities that he or she has depicted. The equity theory states that the wages of the employee must match the job standards and the labor market (Dreher & Dougherty 2002). The managers hence believe that if they fail to match the wages wit the rest of the industry, chances are the best qualified employees will migrate to the rest companies that are paying better. The company that pays lowly will also not attract qualified people. This implies that incompetent personnel will be guiding the company which is translated as a management failure.

Role of Pay Equity in Employee Motivation

According to Dreher & Dougherty (2002) matching the pay to the overall industry pay roll or the value of the job plays a great role in ensuring the satisfaction of the employee. This is because the morale of the employee is boosted when the relative wage that he or she is being paid is equal to the skills and abilities that he or she provides. When the image of a company is recognized, the employee feel appreciated, and works effectively to ensure the same level is either maintained or pushed to higher standards.

Conclusion

According to the article, the only better way to ensure the best and qualified personnel are maintained in a business or company is by ensuring that their pay checks match those of their colleagues or the value of the job they are carrying out. The consequence of ignoring this is losing them to other companies and risking the operations of the company. Remuneration is termed the best motivation an employee deserves.

Reference

Dreher G. F. & Dougherty T. W. (2002). Human Resource Strategy: A Behavioral Perspective for the General Manager. Boston, MA: McGraw Hill.