

Balancing Seniority Rewards and Performance: Challenges and Solutions in Human Resource Management

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ABSTRACT

The study examined the impact of reward and compensation systems on employee performance in medium-sized companies, focusing on workers who had been working for a long time but showed declining performance. Through a qualitative case study approach, this study identifies challenges and dynamics in the implementation of seniority and performance-based reward systems. The results show that seniority-based reward systems tend to be less effective because they give significant recognition to existing employees even though their productivity decreases, while new employees who contribute highly are less rewarded accordingly. In contrast, performance-based compensation systems have proven to be more effective in improving the motivation and retention of high-performing employees. However, the main challenge in this system is determining fair and transparent performance metrics. A hybrid approach that combines elements of seniority and performance can create a balance, but it requires special attention to fairness and consistency in its implementation. The study's main recommendations are the development of a fair and transparent reward system, continuous evaluation, and employee involvement in developing and reviewing the reward system to increase motivation and acceptance. This research makes an important contribution to a more effective and sustainable human resource management strategy.

Keywords: Compensation Systems, Challenge, Employee Motivation, Human Resource Management, Performance-based Compensation, Seniority-based Rewards.

INTRODUCTION

In the competitive business world, human resource management plays a vital role in ensuring the success and sustainability of the company (Bücker et al., 2020). One of the crucial aspects of this management is the reward and compensation system implemented to motivate employees (Almanwari et al., 2024; Boar et al., 2023; Godfroid et al., 2022; J. Li, 2022; Memili et al., 2023; Savandha et al., 2024). However,

companies often face challenges in managing the balance between valuing the loyalty of workers who have long contributed and taking into account their actual performance. According to a survey by Gerhardt et al. (2023), 60% of companies report a decline in performance among long-tenured employees over the past five years. Moreover, the Bureau of Labor Statistics (2023) indicates that employees with over 20 years of experience have 15%

lower productivity compared to those with 5-10 years of experience.

Companies often face dilemmas when it comes to managing human resources, especially when it comes to worker recognition and compensation (Boar et al., 2023; Cherian et al., 2021; Hildreth, 2024; Rivetti et al., 2024; Saputra et al., 2023). On the one hand, seniority-based rewards and compensation reward loyalty and experience, which have been built over the years (Akpom & Ibegbulam, 2023; Brehm et al., 2017; Grabner & Martin, 2021). However, this approach can be ineffective when older workers show a decline in performance (Boukis et al., 2023; Sopiah et al., 2020; Wu et al., 2024). In contrast, a performance-based approach rewards workers based on their real contributions, regardless of the length of tenure (Armstrong et al., 2024; Guo et al., 2023; Noorazem et al., 2021; Thneibat & Sweis, 2023). Research by Black (2023) found that 52% of senior employees are dissatisfied with seniority-based reward systems, and 40% are considering looking for new jobs.

Previous studies, such as those conducted by D'Mello et al. (2024), show that workers who have worked for a long time in a company tend to have decreased performance compared to new workers who are still at their peak performance. Meanwhile, research from the Li et al. (2024) indicates that workers with good performance are often younger and new to the organization. The results from Amor (2023) also highlight that workers who have been in the company for a long time may

experience limitations in dealing with rapid technological and market changes. World Economic Forum (2022) reports that 65% of senior employees struggle to adapt to rapid technological and market changes compared to 30% of younger employees.

This study's novelty is to fill the gap in the literature by specifically examining how the reward and compensation system has an impact on the performance of workers who have been in the company for a long time, but whose performance has declined. While there is little research explicitly addressing this dynamic, the practical implementation of an effective reward and compensation system is also often a challenge for companies. Grabner et al. (2021) shows that companies implementing performance-based reward systems experience a 25% increase in productivity and a 30% increase in employee satisfaction.

The main objective of this study is to analyze the existing reward and compensation systems in companies that prioritize old workers, even though their performance is declining. In addition, this study aims to identify what factors affect worker performance in this context, including the influence of working time and previous performance. Thus, the results of the study are expected to provide practical recommendations for companies to optimize their reward and compensation systems to be more effective in improving employee performance and motivation.

This introduction is the basis for understanding the context, theory,

previous studies, novelty, gaps, and objectives of the research to be carried out. Thus, this research is expected to make a valuable contribution to the development of more effective and sustainable human resource management strategies.

METHOD

This study adopts a qualitative case study approach to understand the implementation of reward and compensation systems in a medium-sized company. The main focus of the study is to delve deeply into how reward and compensation policies affect employee motivation and performance, particularly in the context of workers who have been in companies with declining performance for a long time. The case study method was chosen because it allows researchers to explore complex dynamics and contextual factors that influence the implementation of human resource management policies.

The research process will begin with the selection of companies that meet the criteria as the object of study, such as the size of the medium-sized company and the existence of policies relevant to the focus of the research. Data will be collected through in-depth interviews with human resources managers, team managers, and employees representing different levels within the organization. The interviews will focus on their perception of the reward and compensation system, its impact on motivation and performance, and the challenges faced in its day-to-day implementation.

In addition to interviews, direct observations will be conducted to gain a deeper understanding of the interactions between employees, the dynamics of the work environment, and the implementation of rewards and compensation practices. The data will also be reinforced with the analysis of documents such as company policies, employee performance reports, and relevant performance evaluations. All collected data will be analyzed thematically to identify key emerging patterns and themes and explore the relationship between reward and compensation policies and employee motivation and performance.

This research will pay attention to the ethical aspects of research, including obtaining permission from the company concerned, maintaining the confidentiality of information, and ensuring the consent of participants before collecting data. With a well-structured and well-documented methodological approach, it is hoped that this research can make a valuable contribution to the development of more effective and sustainable human resource management strategies for medium-sized companies in managing employees who have long experience but declining performance.

RESULTS AND DISCUSSION

Seniority-Based Recognition System

In this study, it was found that the reward system based on working time tends to give greater recognition to the workforce based on the length of service in the company. This often leads to situations where employees who have

been working for a long time but whose productivity has declined still receive significant recognition, while new employees who have contributed greatly to the company's productivity

improvement do not receive comparable recognition. This gap not only creates an injustice in awards, but it can also reduce the motivation of new hires to stick around in the long run.

Table 1.
Employee Data Percentage

Employee Category	Number of Employees	Percentage of Total (%)	Recognition/Awards
Long-Term Employees (>5 years)	30	30%	Employees who have worked for more than 5 years but their productivity has decreased. Awards are based on seniority, although the contribution to productivity decreases.
New Employee (<2 years)	70	70%	New employees who perform well and make a significant contribution to the company's productivity. Lack of recognition or comparable awards.

In the context of this study, the findings show that the use of a reward system that focuses on the length of service can reduce fairness in performance appraisals. Employees who have been working for a long time but whose productivity has declined may no longer make a significant contribution to the organization's goals. Conversely, high-performing new hires may feel undervalued or unmotivated to continue to excel. Therefore, the use of performance-based retention strategies, such as greater rewards for outstanding performance achievements, can be a more effective solution for retaining high-performing employees and fostering long-term loyalty within the organization. By doing so, companies can strengthen a culture of fair rewards and encourage sustainable growth through proper recognition of individual contributions to the company's success.

Performance-Based Compensation System

The performance-based compensation system described in this study showed more positive results in increasing the motivation and retention of high-performing employees. By focusing rewards on individual performance contributions, employees feel valued and encouraged to continue to excel. Incentives that match their productivity strengthen job satisfaction and build long-term loyalty to the company. However, the implementation of this system is not without challenges.

The main challenge lies in determining performance metrics that are fair and transparent for all departments and levels of employees. It is important to have a comprehensive and objective performance evaluation framework. This ensures that performance appraisal standards include quantitative outputs such as productivity and qualitative aspects such as innovation, team collaboration, and

strategic contributions to the company's long-term goals.

In addition, transparency in the decision-making process related to compensation is also important to maintain employee trust and motivation. Employee involvement in creating and reviewing performance metrics can

increase acceptance of the compensation system implemented. By doing so, companies can create a fair and supportive work environment where employees feel valued for their contributions and are encouraged to give their best for the company's overall progress.

Table 2.
Aspects of the Performance-Based Compensation System

Aspects	Description
Positive Results	High-performing employees are incentivized according to their performance contributions, increasing motivation and retention.
Strengthening Job Satisfaction	Productivity-appropriate incentives strengthen employee job satisfaction.
Building Long-Term Loyalty	Employees feel valued and driven to give their best, building long-term loyalty to the company.
Challenge	Define fair and transparent performance metrics for all departments and employee levels.
Performance Evaluation Framework	The importance of having a comprehensive and objective performance evaluation framework, covering both qualitative and quantitative aspects of employee performance.
Transparency in Decision-Making	Employee involvement in compensation-related decision-making processes to maintain trust and motivation.

Performance-Based Recognition System

The Performance-Based Recognition System has proven to be effective in increasing the loyalty of high-performing employees. Through this system, employees who consistently meet or exceed their performance targets are given recognition that corresponds to their achievements. This recognition not only motivates individuals to continue to excel but also creates a positive culture of appreciation within the organization.

Nonetheless, there are some challenges that need to be overcome. One of them is consistency in awarding throughout the organization, especially in the context of service companies that have complex organizational structures.

It is important to ensure that the criteria and process for awarding are clear and transparent for all employees. Additionally, it is also important to ensure that awards are given fairly, taking into account various factors such as individual contributions, teams, and specific work contexts.

In developing this system further, it is also necessary to continue to measure and evaluate its effectiveness periodically. This evaluation can help to adjust and improve the system so that it remains relevant and effective in dealing with organizational dynamics and changes in the work environment. Thus, a Performance-Based Reward System can be a powerful tool in motivating

employees and improving the organisation's overall performance.

Table 3.

Challenges and Strategies for the Implementation of Performance-Based Rewards System

Challenges in the Implementation of Performance-Based Rewards Systems	Solution Strategy
1. Consistency in Awarding	Make sure there are clear and documented guidelines regarding the criteria and process for awarding. Conduct training to managers and staff to ensure consistency.
2. Fairness in Award Determination	Use transparent and objective criteria to assess individual and team contributions. Consider mechanisms for overcoming bias and perception of injustice.
3. Continuous Evaluation and Improvement	Conduct regular evaluations of the effectiveness of the system. Involve employees in the improvement process and adjust to organizational changes.

Seniority and Performance-Based Compensation System (Hybrid System)

A hybrid compensation system is an approach that combines elements of seniority and performance in rewarding and compensating employees. This system aims to create a balance between rewarding loyalty and employee experience with an appreciation for high performance and tangible contributions made to the company. However, the implementation of this system cannot be separated from the challenges and weaknesses that need to be overcome in order to achieve the main goal.

One of the main advantages of a hybrid compensation system is its ability to accommodate the diverse needs of an organization. Senior employees who

have been with the company for a long time are rewarded for their loyalty and experience, while new employees who show high performance are also compensated appropriately. Thus, this system is expected to increase the motivation and engagement of employees from various layers.

However, the hybrid compensation system is not immune to its drawbacks. One of the main problems is the unfair treatment between senior employees and high-performing new employees. Senior employees with decreased productivity may still be compensated more than new employees who make significant contributions. This can create a sense of dissatisfaction and demotivation among new hires who feel that their efforts and hard work are not getting the rewards they deserve.

Table 4.

Seniority and Performance-Based Compensation System

Employee Type	Criterion	Compensation
Senior Employees	Loyalty and Experience	Tall

New Employees	High Performance and Significant Contribution	Worth it
Senior Employees	Declining Productivity	Tall

This table illustrates how a hybrid compensation system operates within an organization that combines elements of seniority and performance in determining rewards to employees. In this table, there are three types of employees that are differentiated based on certain criteria. First, senior employees are highly compensated as a reward for their loyalty and experience in the company. Second, new hires who demonstrate high performance and make significant contributions also receive compensation commensurate with their achievements. However, challenges arise when senior employees with decreased productivity may still be compensated more compared to high-performing new hires, which can create dissatisfaction among those new hires. Fair establishment in this system is key to ensuring the motivation and engagement of employees from all walks of life is maintained.

Discussion

The study found that time-based reward systems or seniority tend to give greater recognition to employees based on the length of service in the company, even though their productivity decreases. In contrast, new hires who make a significant contribution to a company's productivity often don't get the same recognition. This injustice not only creates dissatisfaction among new hires but can also reduce their motivation to persevere in the long run. This is in line with the research of Talavera et al. (2021), which showed that seniority-

based rewards often do not reflect the actual productivity of employees, which can lead to dissatisfaction and high turnover among high-performing new hires.

In contrast, performance-based reward systems show more positive results in improving the motivation and retention of high-performing employees. Focusing on individual performance contributions makes employees feel valued and encouraged to continue to excel. Incentives that match their productivity not only strengthen job satisfaction but also build long-term loyalty to the company. However, the main challenge in implementing this system is to define fair and transparent performance metrics for all departments and employee levels. Research by Noorazem et al. (2021) and Thneibat et al. (2023) supports these findings, stating that performance-based reward systems can improve retention and motivation of high-performing employees, provided that performance appraisal criteria are clear and transparent.

The use of performance-based reward systems has also proven effective in creating a positive reward culture within the organization. Through this system, employees who consistently meet or exceed their performance targets are given recognition that corresponds to their achievements. However, the main challenges that need to be overcome are consistency in awarding and fairness in the assessment process. It is important to ensure that the criteria and process for

awarding are clear and transparent for all employees. Regular evaluation of the effectiveness of the reward system is also needed to adjust and improve the system to remain relevant and effective in dealing with organizational dynamics and changes in the work environment.

A hybrid approach that combines elements of seniority and performance in rewarding and compensating employees can create a balance between rewarding loyalty and experience with appreciation for high performance and real contributions. However, the implementation of this system also has its own challenges, especially in ensuring fairness and consistency. Senior employees whose productivity declined may still receive greater compensation compared to high-performing new hires, which can create a sense of dissatisfaction and demotivation among new hires. Research by Gill et al. (2024) and Adeel et al. (2023) underscores the importance of fair designation in this system to ensure that the motivation and engagement of employees from various levels are maintained.

Overall, this study emphasizes the importance of using a fair and transparent reward system in organizations. Seniority-based reward systems tend to be less effective in motivating high-performing new hires, while performance-based reward systems are more effective at increasing employee motivation and retention. A hybrid system that combines elements of seniority and performance can be a balanced solution, provided that challenges related to fairness and

consistency can be well addressed. This research makes an important contribution to the development of a fairer and more effective reward strategy to improve overall organizational performance.

CONCLUSION

The study highlights the importance of reward and compensation systems in human resource management, showing that seniority-based rewards often create injustice and reduce the motivation of new employees who contribute significantly, while performance-based rewards are more effective in increasing the motivation and retention of high-performing employees. However, challenges in performance-based systems include the determination of fair and transparent metrics. A hybrid system that combines elements of seniority and performance seeks to create a balance but faces challenges of fairness and consistency in its implementation. The main recommendations are the development of a fair and transparent reward system, continuous evaluation and adjustment, and employee involvement in the process of developing and reviewing the reward system to increase acceptance and motivation.

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