

WAGE FLEXIBILITY IN THE CONTEMPORARY SOCIETY

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The paper follows to offer the most efficient solutions for the attainment by Romania of the economic development level associated to the Western European countries. It proposes the division of the flexibility of labour market in three components, namely: internal flexibility, external flexibility and wage flexibility. The analysis performed within the present study will emphasize the wage flexibility. Wage flexibility can be classified in four components: a) plans of individual and group incentives; b) plans of assigning wages out of productivity; c) plans of distribution of profits and, respectively, d) plans of suggestions. The labour market flexibility, in general, and especially the wage flexibility contributes to the increase of employee motivation at the workplace, aspect which leads to the growth of labour productivity, through this one being put the bases of the medium- and long-term economic development.

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Flexisecurity of labour market, that has two biunivocal dimensions, namely: a flexible labour market concomitantly with the guarantee of employees' security, is nowadays one of the most important problems of the modern society for ensuring the economic development on a medium and long term, a reason for which it has to be taken into account by all the worldwide economic agents with decision power. It is necessary that it be applied in the context of strictly orderliness with action directions – axes – afferent to the Lisbon Strategy, revised, formulated by Jose Manuel Durao Barroso. Only in this way the mentioned strategy can achieve its purpose, namely the one that – **in the context of overcoming the actual economic recession – on a medium term, there be created not less but 6 million workplaces on the background of the generation of a medium economic growth at the European Union level of approximately 3% per year.**

The axes of the revised Lisbon Strategy are the following:

- to make Europe a more attractive place for investments and for working, by accomplishing an internal market in those fields where there is place for increase and employment;
- it is necessary that innovation and knowledge be put in the service of economic growth based on investments on a medium and long term, and on this purpose it is necessary that 3% of the GDP should be directed to the fields of research, development, innovation;
- creation of more and more attractive workplaces. The principle is that more and more individuals would be attracted on the labour force market by reducing unemployment among young people and by modernizing the social protection system.

Regarding the labour market flexibility typology, we can distinguish among internal flexibility, external flexibility and **wage flexibility**. Wage flexibility is translated through transposing into practice some incentive plans / programs for employees. They divide into the following categories: 1. plans of individual and group incentives; 2. plans of assigning wages out of productivity; 3. plans of distribution of profits and 4. plans of suggestions. Following, we will undertake a detailed analysis upon these categories of plans.

1. Plans of individual and group incentives

1.1 Merit payment plan

By this plan, wage increases, known as **payment raises depending on merit**, are determined in correlation with the performance at workplace, the employees that reach a certain level of

performance earn a payment raise to the basis salary that varies between 15 and 30 % depending on the organization. Organizations with exclusive or mainly private capital, but also public companies tried to implement a system to stimulate employees for increasing their attachment to the enterprise, an aspect that has positive effects both upon work productivity, and upon the position occupied by the firms on internal and international markets.

Despite their relative popularity, these plans proved to be, sometimes, ineffective motivators of performance. If, for example, the performance assessment system within the company does not adequately distinguish among superior levels of performance, it is possible that decisions regarding wage raise or fall would be influenced, along objective factors (**achievement of organization objectives**, both the short-term ones, and the long-term ones, **observation of each employee's habits in part, critical incidents**, namely adverse performance), including variables that are irrelevant for performance, such as **perception of others, personality, age, gender, race, or anticipation of (positive or negative) reactions** of the group of employees or of the trade union. Along these aspects, there come also **internal and external forces in the organization** that translate through **budget constraints, the need of correcting inequities, the need of making a difference among groups and levels, education and instruction, moral levels, inflation / cost of living or competition on the labour market**.

1.2. Incentive plan for employees in production

This type of plans usually offer additional compensations to those employees that produce goods over a certain quantity/quality previously specified. When these plans are well grounded, they can contribute to the organization's efficiency by increasing the employees' productivity and decreasing production costs for each department. However, such plans tend, by our opinion, to contribute to the increase of efficiency, but not to perfect it. For instance, in industrial production, incentive plans are often in correlation with important changes in work methods for supporting the increase of efficiency gained through time and movement studies or through work simplification. Along another line, some strategies of job description can be used for organizing tasks more efficiently or for simplifying them, and the incentive system is intended so that the employee use some more and more efficient methods.

A traditional incentive system that is used for the employees in production is **the plan depending on the quantity of items** where wage is correlated to the number of items produced. In many such plans, the worker is guaranteed a basic salary, or a minimum income per hour that supposes a certain number of items and is paid additionally for the production realized over this norm. For each item that he realizes additionally, the employee is paid a greater amount than the employees that realized only the minimum standard.

Through the **production bonus**, employees that exceeded the minimum production standards receive a supplement that is correlated to the decrease of production costs and to the increase of labour productivity. An example is the **standard-hour plan**, through which the standard time for the realization of a particular task is established. The worker is paid with the standard ratio even if he reached his norm in a shorter time. For instance, if the standard time associated to a certain task is nine hours, and the employee fulfills it in six hours, his earning represents the equivalent of nine hour ratios.

1.3. Incentive plan for employees in sales sector

Wage plan applied in the sales sector by the majority of organizations supposes **commissions** or bonuses that are granted depending on the number of products sold or in correlation to the income obtained through their sale. These can be thus considered as being individual incentive plans.

One of the **advantages** of commission-based payment is that the present system is closely linked to the income and profit obtained by the firm. Usually these are stimulated, but when the company passes through a recession period, a commission-based system allows the decrease of

its costs. The main **disadvantage** of this system from the employees' point of view is represented by the fact that their standard of living can be lower than if they were paid the basic wage.

1.4. Incentive plan at the management level

The most frequently used incentive plans for the management staff are represented by **performance bonuses**. Details linked to these bonuses vary, though, to a great extent from a company to another. For instance, they can be granted on the basis of a general assessment referring to the contribution that each manager had to the improvement of the firm activity. Regarding the bonus that can be granted at the end of each year, it depends to the extent in which the respective individual reaches the objectives that were agreed upon on the basis of annual collective negotiations.

Bonuses, paid a single time annually, represent gradual wages accepted as supplements both for the managing staff and for the other categories of employees. One of the **advantages** of such bonuses is the one that they do not additionally complicate a waging structure, if it is established that this structure is too branchy. A **disadvantage**, seen especially in the case of employees, is the one that bonuses do not increase benefits such as pensions and insurances, that, usually are in close connection with the wage level.

Another form of incentives is represented by the **sale of shares**. Through such a plan, both the managing staff and the subordinates have the right to buy a certain number of shares of the company to the established price on a certain date. The number of shares that each person is entitled to is in direct correlation with the performance of each employee. If the value of shares is superior to the predetermined price, then the person that owns them obtains a substantial profit from the exercise of the right of sale upon these. In the contrary situation, this right will not be exercised.

During the last years, incentive plans that refer to the managing staff made the object of several criticisms for the reason that the majority of these give results rather on a short term than on a long term. For instance, a study performed upon the multinational companies in the United States and the Occidental Europe⁷¹⁹ emphasizes the fact that 85% of the interviewed companies reward the managing staff on the basis of the increase of earnings that can be realized from the company's shares. However, the increase of earnings per share must not be automatically correlated with the increase of the price of shares. Earnings per share can be easily manipulated on a short term, this thing non-contributing to the long-term success of the organization. Therefore, many corporations from Great Britain and the United States⁷²⁰ established incentive systems that reward the managing staff on the basis of the efficiency of investments or of the economic growth.

2. Plans of sharing earning from productivity

More and more companies offer prizes based on the productivity of the organization. These prizes, often encountered under the denomination of **plans of dividing earning from productivity**, follow to stimulate the production efficiency, allowing the employees to receive a quota of the total savings reported to the costs with work and production, by the grant of some periodical prizes. The wide participation of the employees is a definitory characteristic for this type of plans. Generally, employees participate in commissions that develop and propose suggestions about the various problems of production such as work methods, necessary equipments and materials, reduction of rejections, placement plans etc.

2.1. The Scanlon plan

This is a well-known plan of earning distribution that not only allows, but it also requires a massive participation of employees. The plan grounds on a ratio between the costs of labour force

⁷¹⁹ BOS, AIG, General Electric, Bayer, Colgate-Palmolive.

⁷²⁰ BG Group, Hanson, AT&T, Citigroup, Mitchell Fein.

and productivity. When the costs of labour force decrease compared to productivity, employees are entitled to receive bonifications. When costs related to labour force do not decrease, there are no possibilities of dividing savings. Normally, all the employees benefit from the cost savings, also including employees from production, the ones in sales, supervisors etc.

The Scanlon Plan distinguishes through the fact that it puts the accent on the cooperation among the leadership of trade unions and the production commissions formed of employees, at all the levels. In fact, the father of this plan, Joseph Scanlon, would have not elaborated a plan without the agreement between the leadership of trade unions and employees. A production commission from each department that includes those members chosen by the trade union or by the majoritary vote of the employees of an organization and the supervisors, gathers regularly for taking into discussion of some modalities of increasing production and for assessing the proposals come from the part of the employees for improving the efficiency of the activity developed.

2.2.Rucker and, respectively, Kaiser plans

Another group of systems of rewarding and participating regarding the receiving of bonuses for decreasing the costs of production is represented by the **Rucker** respectively **Kaiser plans**. The **Rucker Plan** resembles to the Scanlon Plan, but the granting of bonuses has at its basis a more complex analysis including here the economic audit of activities for the preceding years. This audit is used for the professional check of some activities, procedures, processes for expressing a competent, well-founded and independent opinion on the basis of reporting to a quality standard. Through the **Kaiser Plan**, savings to the labour force, deliveries or materials based on the increase of efficiency are shared with the employees. The company benefits of the advantages resulted in a ratio of 67.5%, the rest of 32.5% being distributed to the employees under the form of monthly benefits.

2.3.The Lincoln plan

The **Lincoln Incentive Plan**, applied within the American company Lincoln Electric, combines the characteristics of the plans of widened planned productivity, plans of group rewarding and individual plans based upon the number of achieved pieces. At Lincoln Electric, employees are rewarded individually depending on the number of pieces achieved, but employees work together within the productivity commissions for establishing ways to reduce costs and to increase the profit of the organization. Each employee is paid by the superior depending on the quality and quantity of work and the bonus is calculated accordingly. The payment that an employee takes at home is approximately double compared to those that perform similar activities in competition companies. This plan is correlated also with other benefits, such as life insurances or the purchase of shares by the company's employees. This plan tends to become one of the most widespread incentive instruments used within strongly industrialized states.

2.4.The Improshare plan

One of the newest plans to allocate earning from productivity is the **Improshare Plan** that is correlated to a less extent to participation compared to the other plans mentioned. This plan is based **on the achievement of a pre-established number of items in a time, measured in hours, shorter than the envisaged one**. For instance, if in a company there is envisaged to achieve three clothing items in eight hours, and the employees of the respective company fulfill this objective within six hours, then for the time savings of two hours they receive a bonus with a value of 25% of their daily reward. In the situation this objective is realized, the resulted earning is distributed by the company to the employees.

The present plan distinguishes by the fact that the participation of employees within the commissions and the consideration of employees' suggestions regarding the improvement of work efficiency are **optional**. For this reason the leading staffs of the companies put a smaller accent on the employees' participation than on the corresponding rewarding system. In order that

a plan to have success in a company without trade unions, it is necessary to exist a minimum level of confidence and cooperation between the managing staff and employees.

3.Plans of profit allocation

Through such a plan there is understood a rewarding system through which a part of the organization's earnings is distributed to the employees as a supplement to their usual wage. Generally, the purpose of these plans is that of motivating the employees to contribute to the organization's rentability. The plans of profit distribution can be used for encouraging cooperation, increasing moral and for increasing the financial security of the employees. Within an organization they can include all the employees, only a selected group of the executive council or the management staff.

Following, we will analyze the typology of these plans.

3.1.Plans of Current Distribution

The respective forms of incentives are also called cash plans. Through them, a certain percentage of the company's profits – for example 25% of the net profit - is distributed under the form of cash to employees at intervals of one year or less.

3.2.Differenced Repartitive Plans

Through this type of plans, a part of the company's profits are transferred into a deposit following that the accounts of individual employees be credited. Money becomes available at the moment the employees retire. Some plans allow employees to contribute with supplementary amounts to their accounts. There are used various methods for allocating the funds resulted from the distribution of profit to employees. For instance, the amount that an employee receives can have as a ground the individual basic wage, years of service, merit-based or a combination of these factors.

4.Suggestion Plans

A **suggestion plan** is a rewarding system through which employees are rewarded if they provide useful ideas for the improvement of the organization efficiency. The usual reward is **payment in cash**, although a number of companies provide instead of this products or trips abroad. This type of plans is usually used for obtaining from the part of employees suggestions referring to the decrease of production costs, work protection or the improvement of products' quality. However, some companies promote suggestion plans for granting employees more opportunities to get involved in the company's problems. On the other side, these plans can be useful for the improvement of the communication with the managing staff. However, supervisors are often excluded from these plans because the control upon costs is a part of their job description.

Suggestion plans take the form of some boxes placed in convenient places close to the workplaces, accompanied by some forms. Employees use these forms for writing their own suggestions, then they put them in the boxes for being assessed by a commission. If suggestions are accepted, employees are paid in cash on the basis of a percentage that takes into account the productivity increases that will be possible to be obtained during the first years through the application of the respective suggestions. A standard amount is paid if the decrease of costs is difficult to be quantitatively expressed, or for suggestions that do not have a direct relation with the income, such as the improvement of work protection.

The number of companies that use individual incentive plans tends to decrease. It is not clear if the use of group incentives increases in importance, but certain companies passed, at least during the last years, from the individual plans to the group ones. It seems that plans for allocating earnings from productivity present an increasing importance. The plans of merit payments are used on a more larger scale than the other incentive systems.

Therefore, we can draw the conclusion that the **flexibility of the labour market** in general and the **wage flexibility** in special **contributes to the increase of the employers' motivation at the workplace**, an aspect that is reflected in the **increase of the work productivity**, through this **being put the bases of the economic development on medium and long term**. At the same time, on the purpose of achieving this strategic objective, so that as until 2030 Romania would recover the differences existing at present comparing to the countries that are senior in the European Union, it is necessary that **the governmental strategy, independently of its orientation, should propose as an objective a budgetary policy intended to guarantee the continuous flexibilization of the labour market, concomitantly with the insurance of employees' security irrespective of the company where they develop their activity**.

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