

# Modern System of Employees' Remuneration and its Use by Organizations in one of Czech Republic Regions

Petra Horváthová, Marie Mikušová

**Abstract**—The aim of the article is to describe modern contemporary systems of employees' remuneration used in organizations, to give a general overview of these questions based on the questionnaire survey made by the authors, as well as to assess possible effects of economic crisis in this area. It is necessary to be aware of the fact that firm's success in the contemporary business environment depends not only on the technical equipment, financial resources, availability of raw materials and information and effective management, but one of the crucial factors of firm's success is its human potential. The article emphasizes that the well working remuneration system has a very important position in the organization in the broadest sense. The paper also aims to the current situation in the area of employees' remuneration in one of Czech Republic regions, in the Moravian-Silesian Region.

**Keywords**—Benefits, remuneration system, total pay, variable pay.

## I. INTRODUCTION

EMPLOYEES' remuneration for their work is one of the most important fields of human resources management. This article views the field of remuneration from two sides. First, the authors of the article focus on the issues of remuneration from experts' standpoint and that of theirs, and consequently they present concrete results of the remuneration research carried out in organizations of the Moravian-Silesian Region.

## II. MODERN CONTEMPORARY SYSTEM OF EMPLOYEES' REMUNERATION USED IN ORGANIZATIONS

Every organization should have such individual system of remuneration developed that would meet all specific conditions in which a concrete organization works; the needs of both organization and individual needs of its employees.

### A. Remuneration Strategy and Policy

The strategic aim of remuneration management is to develop and implement the remuneration strategies and the policies, processes and practices required to support the achievement of the organization's business goals. Remuneration strategies have to flow from the business strategy and have to be integrated with other human resources management strategies [1]. Remuneration strategy is important for the organization to define how it is going to

determine its remuneration or pay levels.

Remuneration Policy is one of the most important decisions

that the organization will make. This policy ensures that an organization is able to attract the staff that it needs in order to do its business.

In addition, it provides the basis on which to determine an appropriate "rate of pay" for each job in the organization; a "rate of pay" that is fair, consistently applied across all jobs and that is competitive with market trends.

### B. Remuneration System and Total Reward

Strategic systems of employees' remuneration in organizations should be developed on the basis of a so-called new or total reward approach. This approach emphasizes the importance of all elements of the total reward. Modern systems of remuneration include both tangible and intangible rewarding. To tangible rewarding belong the element of wage the employee is entitled to receive, which is a basic wage or salary, and the element of wage the employee is not entitled to receive which consists of various forms of bonuses, performance bonuses, gratuities, premium allowances, benefits and the like. Among intangible rewards recognition, praise, responsibility, career opportunities, autonomy, quality of working life and others can be ranked. Employees' total reward thus includes in itself both tangible and intangible element of rewarding (see Table I).

TABLE I  
ELEMENTS OF THE TOTAL PAY

basic salary/wage
+
variable element of salary/pay (bonuses, profit sharing, commission, gainsharing, awards)
↓
total pay (salary/wage)
↓
benefits
+
intangible elements of remuneration (recognition, praise, responsibility, career opportunities, autonomy ...)
↓
total pay

Source: M. Armstrong, H. Murlis, Reward management: a handbook of remuneration strategy and practice. London: Kogan Page, 2007, pp. 12.

### C. Variable Pay

In practice, a variable pay of employees' reward very often consists of three categories of variable pay – individual, group/team and organizational incentives. Individual incentives are given to reward the effort and performance of individuals. Group/team incentives provide rewards to teams

or groups of employees doing similar work connected with the performance of a team or a group. Organizational incentives reward people according to performance results of the entire organization. The main reasons why organizations adopt variable pay plans are:

- link strategic business goals and employee performance,
- enhance organization's performance and reward employees for their contribution,
- try to strengthen the link between rewards and performance, it means to recognize different levels of employee's performance, make it visible and thus motivate the employees,
- achieve HR objectives [2].

Table II shows the most common categories of variable pay.

TABLE II  
CATEGORIES OF VARIABLE PAY

individual	group/team	organizational
piece-rate systems bonuses sales compensation awards	group team results gainsharing quality improvement cost reduction bonuses	profit sharing employee stock plans executive stock options bonuses

Source: R. L. Mathis, J. H. Jackson, Human resource management. Mason: South-Western Cengage Learning, 2008. pp. 134.

#### Balanced Score Card

In most organizations a performance element of salary/wage depends on a greater number of criteria. Especially if managerial and specialized positions are in question then these criteria or aims are being derived from a Balanced score card (BSC) method. Strategic aims and their indicators should correspond with a management level of the organization. Top managers' aims mostly relate to the growth of organization's turnover and profitability, quantitative and qualitative aims at lower levels should be determined in such way that they support higher management levels' aims. The most often used indicators of four perspectives of the BSC method are represented in the Table III.

TABLE III  
BALANCED SCORE CARD

return on equity return on capital employed revenue growth	customer satisfaction increase in market share growth of existing customer sales
↑ financial perspective	↑ customer perspective
perspective: internal processes	perspective: employee learning and growth
↓ on-time delivery increase in productivity of labor production cycle shortening	↓ employee turnover accident rates employee satisfaction turnover costs

Source: own processing

The most usual way of weighing the indicators is as follows: to performance criteria percentage weights are assigned, the sum of which equals one hundred. Relative weights of particular criteria expressed in percents should correspond with the significance of particular indicators in order to achieve organization's strategic aims as a whole, with the demanding way of their achieving, and they should remain

relatively constant. Even though there is a tendency to assign the highest weight to financial indicators yet their significance should not be so high as to surpass other indicators.

#### D. Additional Ways of Rewarding (Plus Rates)

A great number of organizations, which can be proved by the survey carried out by the authors, use also so-called additional forms of rewarding to reward their employees. These may be, but not necessarily, linked to performance of individuals or teams/groups. Among the most usual types of rewarding forms currently used by organizations can be ranked:

- compulsory and voluntary allowances (for work overtime, work on weekends, readiness to on-call work, deputizing...),
- personal pays (premium for loyalty, benefits on the occasion of jubilee...),
- thirteen wage,
- Christmas bonus,
- contribution for holiday,
- gratuities on the occasion of being retired and many others.

#### E. Employee Benefits

Employee benefits are part of the system of remuneration. This is a non-claimable and non-monetary way of rewarding. Their amount is directly proportional to the rate of entrepreneurial firm's performance, and whether the employer considers benefits an important motivation factor.

Some companies have already implemented or they are currently implementing a so-called Cafeteria system of employee benefits. Cafeteria system of employee benefits is a system of optional blocks of employee benefits within which a certain volume of points or virtual money is assigned to an employee for which they draw benefits during a specified period (according to their wish) from a broader offer. Employees have an option to choose a 'package' of rewards that is most advantageous from the standpoint of their present needs and their present situation. The system of optional employee benefits is not a real novelty in this country, and companies that can afford time and financial investment gradually implement this novelty.

Some of them have a simpler shape in the form of rendering vouchers for leisure time activities others have been created more comprehensively on the basis of benefit for additional old age insurance, a possibility of longer holiday and many other variants of benefits.

### III. OUTCOMES OF REMUNERATION SURVEY IN MORAVIAN-SILESIA REGION ORGANIZATIONS

This survey was aimed at mapping the problem area of remuneration in organizations of the Moravian-Silesian Region. As a method of survey, asking questions in writing through in advance made up questionnaire had been chosen. Within the survey taking place in October and November 2009, 110 respondents were addressed.

On the basis of data processing obtained through a questionnaire survey encompassing various aspects of

remuneration in organizations of the Moravian-Silesian Region it can be said that the organizations choose such approach to the creation of the system of remuneration that results from a concrete situation of the organization, from its actual condition. Among the addressed organizations there is not possible to find two organizations with the identical form of the system of remuneration and it even cannot be said which of those systems is 'the best and which 'the worst'.

From the results of the survey it has followed that in 76 % of the approached organizations the strategy of remuneration was worked out. The policy of remuneration from which the system of remuneration was consequently derived in concrete organizations, has been implemented in 93 % of respondents' organizations. Only in 49 % of the interviewed organizations the employees are getting acquainted with the system of remuneration, which is not a very positive finding. Here it is very important for organizations' employees to be informed about any changes in this system in time and in an understandable way.

As regards the structure of wages for workmen (blue-collar) positions, in 63 % of organizations a total pay consists of a basic wage (time wage or piecework wage) and a variable pay (in the form of premium or bonuses) which in 21.8 % of organizations depends on individual's performance and on organizations' results as a whole, and in 9 % of organizations a variable pay also depends on appropriate department's performance. According to our opinion, for workmen positions it is very important to support team work and at the same time to show the employees that in spite of being at the lowest hierarchical level they are also part of the whole and that they contribute to the success and competitiveness of the organization.

As regards the structure of salaries for administrative positions (white collars), in 85 % of organizations a total pay also consists of the basic and variable pay in the form of bonuses, premiums or personal performance evaluation. So-called multi-element remuneration has been set in 83 % of the approached organizations. It means that a variable pay does not depend only on individual's performance but also on team's or department's performance or on the results of the whole organization. From the above-mentioned we can come to the conclusion that organizations strengthen employees' loyalty both within the whole organization and also by encouraging team spirit inside the organization. Nevertheless, managers should not forget that the unsuitable application of individual bonuses may decrease firm's performance and the excessive emphasis put on individual performance will hinder team work, and rivalry will arise among employees. Furthermore, they should not forget that if it is difficult or impossible to evaluate individual performance if it hinders team work then it is more suitable to use rewarding based on team performance.

As for employees working as line managers the structure of salary is analogous to that at administrative positions. The total pay in 93 % of organizations consists of the basic and variable pay which always depends on individual's

performance and then a combination of team rewards and rewards depending on the performance of the whole organization is used. Unfortunately, there are also organizations whose system of remuneration is based only on the raise in basic wages. Managers in such organizations should consider whether it will be possible to maintain in that way set system of employees' remuneration in the present business environment and whether that way of remuneration motivates their employees to a higher performance. Nowadays, fixed wages without premium or bonuses seem to be a relic. Productivity of labor is much more distinctly influenced by a floating element of wage on condition this way of reward is directly and clearly dependent on performance and in modern organizations also on competences influencing the achieved results. Increase in the basic or claimable element of wages has a short-term motivation effect only.

As it followed from a carried out questionnaire survey, all approached organizations reward their employees by so-called additional forms of rewarding (fringe benefits). Forty two percent of organizations provide as an additional form of pay contributions to the jubilee, 34 % of organizations give gratuities to those employees who leave to be retired and 33 % of organizations reward employees for their loyalty and 30 % of organizations contribute to their employees by a certain amount of money for holiday. In practice, there are many other additional ways serving employees' remuneration either for their superior performance or just because they work in the organization. Many organizations, however, have considerably restricted providing employees with such beyond standard ways of remuneration as a consequence of the economic crisis.

Employee benefits are provided to employees in 82 % of approached organizations, in 59 % of those organizations there is a system of flat pay, i.e. that all employees in the organization receive the same employee benefits. Twenty three percent of organizations have implemented a differentiated system of benefits - different according to the hierarchical level, in 16 % of organizations this differentiated system varies according to work positions and in 2 % of organizations there is a differentiated system of providing employee benefits based on the number of years at work. As for the existence of the system of employee benefits in the shape of Cafeteria system, the system of benefits is of the same shape in 27 % of organizations. It is very remarkable that these days there are organizations that do not consider employee benefits as part of the system of remuneration (18.2 % of respondents) in spite of the fact that providing benefits is nowadays part of the personal strategy of most organizations.

Managers who are persuaded that employees are motivated by a financial reward only do not pay a sufficient attention and effort to other motivation factors to which employee benefits can be definitely ranked. Their significance is inexorably growing and in many cases they represent that notorious tilt at scales in making decision whether to say yes to the offer of employment to this or that firm. Today,

however, employees in organizations do not get benefits only for the reason they are their members, in some organizations the system of employee benefits is interconnected with rewarding according to their performance or rewarding according to their contributions. The current economic crisis, however, has 'signed' in a negative way under providing employee benefits - more than a half of companies have introduced actual measures in the field of cutting costs associated with employees. As a study worked out by PricewaterhouseCoopers - PayWell 2009 confirms, the effort of firms to save money in the field of employee benefits has reflected most of all in the field of cultural, sports and social actions.

#### IV. CONCLUSION

In the present turbulent environment the remuneration of employees is becoming one of the basic aspects of choice, stabilization and self-advancement of workforce and competitiveness of the organization. So, how should organizations reward their employees? What forms of benefits should be used so that the system of remuneration could be strategic and motivate not only the current employees but also prospective ones and that all at ensuring reasonable cost? Creation of a fair, motivating and competitive system of employees' remuneration is not a simple matter. In practice, there are various forms of employees' remuneration systems it depends upon the organization itself which strategy of remuneration it will choose. Organization is not mostly able to reward every person individually nevertheless, it should always do its best for the system of remuneration to be 'made to measure' to its actual conditions and at the same time it should take into consideration the internal policy and corporate culture of a certain organization.

#### REFERENCES

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