

# Contingent Pay and Experience with its use by Organizations of the Czech Republic Operating in the Field of Environmental Protection

Petra Horváthová, Marcela Davidová, Miroslava Bendová

**Abstract**—One part of the total employee's reward is apart from basic wages or salary, employee's benefits and intangible elements also so called contingent (variable) pay. Contingent pay is connected to performance, contribution, competency or skills of individual employees, and to team's or company-wide performance or to combination of few of the mentioned possibilities. Main aim of this article is to define, based on available information, contingent pay, describe reasons for its implementation and arguments for and against this type of remuneration, but also bring information not only about its extent and level of utilization by organizations of the Czech Republic operating in the field of environmental protection, but also mention their practical experience with this type of remuneration.

**Keywords**—Contingent pay, environmental protection, experience in using, organizations of the Czech Republic.

## I. INTRODUCTION

ONE of the most demanding challenges, which has to be successfully managed by managers or personnel officers of any company (including those operating in the field of environmental protection), is creation of effective, motivational, fair and clear system of employees' remuneration in a given organization. Relatively wide scale of possibilities how to solve this problematic exist. Outcome should be creation of such remuneration system, which would be acceptable for both the employees and employers and therefore it would help to create harmonious relationships in organization. Organization must clearly know exactly how its remuneration system will look, thus which existing possibilities of remuneration it will use from the wide scale of choices, what structure will the total reward have (which parts and what proportion will create it) and what rules, what tools, and what procedures will be used to remunerate individual employees. Creation of remuneration system influences a fact that factors which influence person's performance do not have to show in causal chain of events immediately, but it could be

influenced by change of human competency capacity, subjective preferences when choosing mental strategies and objectives and so on [6]

Traditionally, reward is considered to be wages or salary, possibly other forms of financial reward given to an employee as a compensation for performed job. However modern human resource management perceives remuneration rather wider and structure it into three main categories, namely to: tangible base remuneration (1), tangible non-base financial and non-financial rewards (2), and intangible remuneration (3) (see Table I). Therefore, the total remuneration can consist of basic wage or salary (including legal premiums), variable/contingent pay (premiums, bonuses...), employee's benefits and intangible parts (recognition, bigger responsibility, quality of working conditions....).

TABLE I  
MODERN SYSTEM OF REMUNERATION

Tangible remuneration	Intangible remuneration (3)
Base (entitled to) (1):	
• wage or salary,	• promotion
compulsory premiums	• recognition
Not entitled to (2):	• good relationships at workplace
• financial – premiums,	• bigger responsibility
bonuses...	• content of performed work
• non-financial –	• bigger independence
employees' benefits	• quality work conditions...

Source: own processing

It is very important that the remuneration system, which was set, is able to differentiate between the performing and non-performing employee, among employees with various levels of required competencies and among employees with different market value. Well-chosen remuneration method should motivate to growing performance even those employees, who have the need to work on fulfillment of the „mission“, which could be self-realization and growth of knowledge [5]. Part of total reward, which makes all this possible, is contingent pay.

So we can assume that contingent pay will be widely used in practice. However it is not like that. For implementation and utilization of contingent pay doesn't exist unambiguous opinion. We can encounter convincing arguments for and against this type of remuneration revealing both, its positives and negatives (see paragraph II.D. of this article).

Generally, contingent pay cannot be unequivocally recommended or refused. It is impossible to define only one „right“ type or system of contingent pay. Efficiency of this part of total reward always depends on current situation of a concrete organization.

Petra Horváthová is with the VŠB-Technical University of Ostrava, Faculty of Economics, Department of Management, Sokolská 33, 701 21 Ostrava 1, Czech Republic (phone: 00-420-59-6992442; fax: 00-420-597-322-442; e-mail: petra.horvathova@vsb.cz).

Marcela Davidová is with the VŠB-Technical University of Ostrava, Faculty of Mining and Geology, Institute of Environmental Engineering, 17. listopadu 15, 708 33 Ostrava-Poruba, Czech Republic (phone: 00-420-597-326-175; fax: 00-420-596-110-026; e-mail: marcela.davidova@vsb.cz).

Miroslava Bendová is with the VŠB-Technical University of Ostrava, Faculty of Mining and Geology, Institute of Clean Technologies for Extraction and Utilization of Energy Resources, 17. listopadu 15, 708 33 Ostrava-Poruba, Czech Republic (phone: 00-420-597-321-245; fax: 00-420-596-918-589; e-mail: miroslava.bendova@vsb.cz).

Despite the disunity of opinions on utilizing or not utilizing the contingent pay it is possible in practice, not only in foreign (Studies *E-reward Annual Update 2011 a Personnel Rewards 2009*), but also in Czech organization, even those operating in the field of environmental protection, to notice growing trend in giving financial rewards based on performance, contribution, competency and skills of individuals, team or whole company performance. Partial evidence of this statement are the outcomes, which emerged from the analysis of questionnaire research's results, which were realized by the authors of this article at the end of the year 2009 among 110 respondents – organizations of the Czech Republic operating in the field of environmental protection (see paragraph III. of this article).

## II. CONTINGENT PAY IN GENERAL

### A. Definition of Contingent Pay

Contingent pay consists of payments connected to individual performance, contribution, competency and skills or team/organization wide performance [1]. Several forms of contingent pay exist (see Table II).

TABLE II  
FORMS OF CONTINGENT PAY

Individual contingent pay	<ul style="list-style-type: none"> <li>• Reward based on performance</li> <li>• Reward based on contribution</li> <li>• Reward based on competency</li> <li>• Reward based on skills</li> <li>• Reward based on length of employment</li> </ul>
Team contingent pay	<ul style="list-style-type: none"> <li>• Reward based on performance</li> </ul>
Organization wide contingent pay	<ul style="list-style-type: none"> <li>• Reward based on performance</li> </ul>

Source: own processing

Notice: Sometimes among the contingent pay is also incorporated the remuneration based on length of employment, when the financial reward is not connected to performance or skills, but to length of continuous employment either on one working position or in one level of remuneration scale.

It is necessary to differentiate between performance (what person achieves) and contribution (influence of individual on performance of team and whole organization). Level of contribution will depend on: competency, skills, individual's motivation, opportunities, when employees can prove their skills, but also on the way their supervisors lead.

Contingent pay can be provided in two different ways. Firstly, it can be connected to base wage or salary; in this case it is usually paid continuously, when an employee gives an adequate performance. Secondly, it can be paid on a one-time basis in the form of financial bonuses; in this case we talk about so called variable pay.

### B. Contingent Pay Characteristics

Contingent pay answers two basic questions of remuneration management: 1) What are we appraising? and 2) What are we

willing to pay for? It is one important, but not the only part of remuneration. Modern human resource management emphasizes the importance of intangible reward as an integral part of total employee reward.

Many people consider contingent pay as the most important, sometimes even as an only way to motivate employees. However this view isn't correct. The relationship between motivation and reward is a complex issue and it is impossible to assume that long-term motivation is only influenced by *external motivators* in the form of financial tools. Much bigger influence and longer lasting effect on motivation could have the *internal motivators*, e.g. work content or quality working environment [3].

If we think about contingent pay it is necessary to differentiate between *direct motivation* provided through *financial incentives (stimulus)* and *indirect motivation* provided through *financial reward*. Financial incentives (stimulus), direct motivators, pertain to future period, motivate employees to make bigger working effort and achieve better results, namely by specification of amount they can get, if they in the future fulfill required goals („If you do this, you will get this“) Financial rewards, indirect motivators could pertain to past period, when they are provided for what a person achieved in the past („You achieved this, therefore you get this“), and also to future period, when they are provided for what a person will achieve in the future („We will pay you more now, because we believe that you have achieved the level of competence, which will in the future bring high level of performance“) [1].

### C. Reasons for Implementation of Contingent Pay

Three main reasons for utilization of contingent pay exist:

1. *Motivation*. Reward dependent on performance, competency or skills motivates employees to reaching higher level of performance and leads to a bigger extent and depth of their skills and competency.

2. *Message*. Contingent pay brings a general message conveyance that is that organization considers performance and competency or skills very important – „This is what we expect, that you'll do and this is how we will reward you for it“. Apart of this it also brings a message about certain values, behaviors or aspects of performance, which are in a specific organization considered as significant; for example in regards to quality, customer service, leadership or team cooperation.

3. *Justice*. It is right and appropriate that the employee's rewards derive from their performance, contribution, competency or skills.

First reason is probably the most popular, but also the most doubtful. Contingent pay can be motivational only when fulfilling many strict *conditions* (individuals and teams clearly know the objectives and standards, which they have to achieve; reward is clearly and closely connected to success or effort – people know exactly what reward they'll get if they achieve required objectives or standards; for measurement or appraisal of performance and competency or skills we have available fair and consistent tools; people must be able to

influence their performance by the change of their behavior or development of their competency and skills; amount of a reward should be significant for the employee; reward should be given to employees as soon as the given objective is fulfilled.

When it comes to the second reason, contingent pay is not the only way how to provide the message connected to the importance of performance, competency, and skills, values and behavior. Other possibilities exist, for example a common process of management and leadership. Contingent pay can support and encourage these processes but it can't replace them [2].

#### *D.Arguments For and Against Contingent Pay*

The strongest argument *for* contingent pay is an opinion that it is right and appropriate that the employees' reward derives from their performance, contribution, competency or skills, rather than they would be rewarded for „being at work“, as it is still common in public and voluntary sector, in health care and education system. Individual should derive from the level of individual employee merit; the higher the merit, the higher the reward.

Other commonly used arguments for contingent pay are:

- they work as a motivator,
- instigate and support desirable behavior,
- recognize and reward better performance,
- contributes to acquire and keep highly qualified people,
- gives a message that performance, contribution and competency and skills are important,
- provides tools for definition and approval of expectation in the area of performance, contribution, competency and skills,
- improves organization's performance,
- strengthens organization's values,
- helps changing the culture, e.g. by supporting the development of performance culture.

The strongest argument *against* contingent pay is an opinion that the extent to which the contingent pay motivates employees is questionable. The amount determined for distribution is usually so low, that reward of this type isn't for employees significant and therefore it doesn't influence them as an incentive.

Second strongest argument against contingent pay is an assertion that fulfillment of the condition for the contingent pay to be motivational is demanding and hardly achievable. To these conditions belong that: the individuals know objectives and standard, which they have to achieve and that the reward is clearly and closely connected with their success or effort – people know exactly what reward they'll get if they achieve required objectives or standards, that for measurement or appraisal of their performance, competency or skills are available fair and consistent tools, that people are able to influence their performance by the change of their behavior or by development of their competency and skills, that amount of reward should be for employees significant and that reward should be provided to employees as soon as the given task is fulfilled.

*Other commonly used arguments against contingent pay are:*

- money could help in the process of motivation, but it is a mistake to think that they will lead by themselves to permanent motivation,
- people react to any form of motivation differently; assumption that money will motivate everybody in the same way is incorrect,
- money could possible motivate even those who received it, but demotivate those who didn't receive it; number of demotivated people could be much higher than those motivated ones, which is of course unwanted result,
- it is necessary to consider the existence of selective perception of individual employees, when these employees differently perceive and interpret information in a way that they are consistent with their view on the co-worker or superiors (Vokounová, 2005); then it can come to this, that an employee that should've received and didn't receive reward could feel injustice, because he or she is convinced that he or she gave a performance for which he or she should've received a reward,
- if the contingent pay is perceived as unfair, inadequate or wrongly managed (as it often happens) then it creates in employees dissatisfaction more than satisfaction and leads to their demotivation,
- necessary condition for functioning of the contingent pay is the existence of specific and reliable methods of appraisal of the performance, contribution and level of competency and skills; if these appraisal methods are not objective or in the organization such methods do not exist, contingent pay can't function in the appropriate manner; implementation and utilization of such methods isn't an easy matter,
- contingent pay relies on manager's opinions, which could be, in a case that there aren't available reliable data and information, wrong, subjective or inconsistent,
- contingent pay is based on a condition, that performance completely depends on individuals; in reality the performance is influenced by conditions and system in which the people work,
- contingent pay, especially remuneration based on performance, can have a negative influence on the work quality and team work,
- contingent pay can in employees cause the concern that the demands on their work will constantly grow; this type of remuneration can work only for a certain period of time,
- contingent pay is difficult to manage (it is necessary to connect it with performance management, effective communication and engaging the employees is a necessity, existence of appropriate competency of line managers is a must),
- critical factor of contingent pay success are competency of line managers, they have to consider this form of remuneration as something, which will be advantageous not only for them, but also for the whole organization; they must be able to agree on and ensure agreement on individual or

team objectives derived from organization's objectives, regularly, precisely and objectively appraise employees' performance, they must be able to provide feedback to their subordinates pertaining to performance management outcome and its impact on the amount of their reward (Armstrong, 2009).

### III. USE OF CONTINGENT PAY IN ORGANIZATIONS OF THE CZECH REPUBLIC OPERATING IN THE FIELD OF ENVIRONMENTAL PROTECTION

In order to find out the level of contingent pay in organizations of the Czech Republic operating in the field of environmental protection the authors conducted a survey focused on this issue.

#### A. Material and Methods

Subject of the research was to map problematic of contingent pay use in organizations of the Czech Republic operating in the field of environmental protection. The objective of the research was to find out in individual organizations: (1) to what extent they use contingent pay according to individual positions (line managers, administrative positions, and working positions), (2) how long are they using the contingent pay, (3) on what depends the amount of contingent pay according to individual positions, (5) if they are satisfied with the use of contingent pay according to individual positions; thus, if this reward really provides most of the theoretically mentioned benefits (see paragraph II.D. of this article), (6) whether they would, despite certain negatives (see paragraph II.D. of this article) recommend contingent pay to other organizations.

As a research method was chosen written questioning by means of pre-prepared questionnaire, which included 16 questions, from which 14 pertain to problematic in question, 2 questions were identification. Identification questions were aimed to find out organization's size and existence of foreign owner or shareholder. The sphere of business of all organizations surveyed was the area of environmental protection.

For the creation of respondent's group, in which the research was executed, the technique of simple random sample was used (from the basic group, which were all Czech organizations operating in the field of environmental protection - 628 organizations).

The questionnaires were sent by mail or given personally in the period of 13<sup>th</sup> – 19<sup>th</sup> October 2009, filled in questionnaires returned from 22<sup>nd</sup> October to 12<sup>th</sup> November, 2009. From total amount of 140 (100 %) sent questionnaires, 110 questionnaires (78, 6 %) were returned, 8 questionnaires (5, 7 %) returned as undeliverable (dissolution of company, address change etc.) and 22 questionnaires (15, 7 %) didn't return.

Elaboration of acquired data followed took place from 18<sup>th</sup> November to 2<sup>nd</sup> December.

#### B. Results

From all organizations (110), which participated in the research, 44 were small (less than 50 permanent employees), 37 middle (51 to 250 permanent employees) a 29 big (more than 250 permanent employees). From the total of 110 organizations which participated in the research, 25 has a foreign owner (shareholder), 85 organizations don't have a foreign owner (shareholder).

##### 1. Use of contingent pay according to individual positions

From 100 organizations (100 %), which participated in the research, with *line managers* the contingent pay is used in 93 organizations (84,5 %), not used in 10 organizations (9,1 %); in 7 organizations (6,4 %) the position of line manager doesn't exist. With *administrative position* the contingent pay is used in 93 organizations (84, 5 %), not used in 17 organizations (15, 5 %). With *workers* the contingent pay is used in 70 organizations (63, 6 %), not used in 2 organizations (1, 8 %); in 38 organizations (34, 6 %) the workers' position don't exist.

##### 2. Length of using the contingent pay

From 93 organizations (100 %), which use contingent pay, 67 organizations (72 %) use this type of remuneration for less than five years, the rest, thus 26 organizations (28 %), more than five years.

*a. Dependence of contingent pay amount on the performance of individuals, teams, whole organization (or combination of these factors) according to individual positions.*

From 93 organizations (100 %), which use contingent pay with *line managers*, in 31 organizations (33,3 %) the amount depends on performance of individual, team or whole company, in 19 organizations (20,4 %) it depends on individual or team performance, in 14 organizations (15,1 %) on performance of individual and whole company, in 11 organizations (11,8 %) only on individual performance, in 7 organizations (7,5 %) only on team performance, in 6 organizations (6,5 %) on performance of team and whole company, and in 5 organizations (5,4 %) only on the performance of whole company.

From 93 organizations (100 %), which use contingent pay with *administrative positions*, in 24 organizations (25,8 %) the amount depends on performance of individual, team or whole organization, in 20 organizations (21,5 %) only on individual performance, in 19 organizations (20,4 %) on performance of individual and whole company, in 14 organizations (15,1 %) it depends on individual or team performance, in 8 organizations (8,6 %) only on the performance of whole company, in 5 organizations (5,4 %) on performance of team and whole company and in 3 organizations (3,2 %) only on team performance.

From 70 organizations (100 %), which use contingent pay with *workers*, in 24 organizations (34,3 %) the amount depends only on individual performance, in 13 organizations (18,6 %) on performance of individual and whole company, in 12 organizations (17,1 %) on performance of individual and team, in 11 organizations (15,6 %) on performance of individual, team and whole company, in 6 organizations (8,6 %) on performance of team and whole company, in

2 organizations (2,9 %) only on a team performance and in other 2 organizations (2,9 %) only on a whole company.

*b. Use of contingent service-related pay*

From 110 organizations (100 %), which participated in the research, 44 organizations (40 %) use individual *service-related contingent pay*, 66 organizations (60 %) do not.

*c. Satisfaction with the use of contingent pay*

From 93 organizations (100 %), which use contingent pay with *line managers*, 91 organizations (97,8 %) are satisfied with use of this type of reward with these positions (thus, if this reward really provides most of the theoretically mentioned benefits), 2 organizations (2,2 %) are not.

From 93 organizations (100 %), which use contingent pay with *administrative positions*, 89 organizations (95,6 %) are satisfied with use of this type of reward with these positions, 4 organizations (4,4 %) are not.

From 70 organizations (100 %), which use contingent pay with *workers*, 69 organizations (98,6 %) are satisfied with use of this type of reward with these positions, 4 organizations (4,4 %) are not.

*d. Recommendation of contingent pay to other organizations*

From 93 organizations (100 %), which use contingent pay with *line managers*, 88 organizations (94,6 %), would recommend contingent pay to other organizations, despite certain negatives connected with its implementation and use, 5 organizations (5,4 %) would not.

From 93 organizations (100 %), which use contingent pay with *administrative positions*, 85 organizations (91, 4 %), would recommend it to other organizations, 8 organizations (8, 6 %) would not.

From 70 organizations (100 %), which use contingent pay with *workers*, 69 organizations (98, 6 %), would recommend it to other organizations, 1 organization (1, 4 %) would not.

#### IV. CONCLUSION

Next to base wage or salary, employees benefits and intangible elements, should be as a part of total employee reward also so called contingent pay.

The base of contingent pay is interconnection of performance, contribution, competency or skills of individual employees, performance of team or whole organization; possibly combination of several mentioned alternatives with the provided financial reward. Sometime is among the contingent pay also incorporated service-related pay, even though it is not „traditional“ form of this type of remuneration. If the contingent pay, whether it will be at all used in the organization, will be interconnected to performance, contribution, competency or skills, it will always depend on the organization's decision. Every form of contingent pay has its advantages and disadvantages. It is always necessary to thoroughly evaluate which forms best suits concrete organization in a way, that its implementation and use is effective for given organization.

One unequivocal opinion for or against contingent pay doesn't exist. Many organizations do not use this type of

reward for its negatives, such as questionable degree of motivation, fulfillment of requirements so that the contingent pay is motivational. In general, number of organizations which implement and use contingent pay is growing; their experience with this part of total reward is positive. Proof of these claims are also the results from research among organizations of the Czech Republic operating in the field of environmental protection executed by the authors of this article. Overwhelming majority of these organizations would recommend the implementation and use of contingent pay for its provable positives, and in spite of certain negatives.

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