

# Contingent Pay And Experience With Its Utilization By Companies in one of the Czech Republic's Regions

Petra Horváthová, Andrej Miklošik

**Abstract**—One part of the total employee's reward is apart from basic wages or salary, employee's benefits and intangible remuneration also so called contingent (variable) pay. Contingent pay is connected to performance, contribution, cap competency or skills of individual employees, and to team's or company-wide performance or to combination of few of the mentioned possibilities. 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. Main aim of this article is to define, based on available information, contingent pay, describe individual forms, its advantages and disadvantages and possibilities to utilization in practice; but also bring information not only about its extent and level of utilization of contingent pay by companies in one of the Czech Republic's regions, but also mention their practical experience with this type of remuneration.

**Keywords**—Contingent pay, individual contingent pay, team contingent pay, company-wide contingent pay.

## I. INTRODUCTION

ONE of the most demanding challenges, which have to be successfully managed by managers or personalists of any company, 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 cap competency capacity,

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subjective preferences when choosing mental strategies and objectives and so on [1].

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 structures 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...).

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 [2]. Part of total reward, which makes all this possible, is contingent pay.

TABLE I  
MODERN SYSTEM OF REMUNERATION

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

Source: own processing

So we can assume that contingent remuneration will be widely used in practice. However it is not like that. For implementation and utilization of contingent remuneration 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 2. D. of this article).

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

Despite the disunity of opinions on utilizing or not utilizing the contingent remuneration it is possible in practice, not only in foreign [3], [4], but also in Czech organization, 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 author of this article at the end of the year 2009 among 110 respondents – organizations having a place of business in Moravian-Silesian region (see paragraph 4 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 [5]. 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

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 [6].

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“) [5].

### C. Reasons for Implementation of Contingent Pay

Three main reasons for utilization of contingent pay exist:

1. *Motivation*. Reward depended 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, behaviours 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 reward derives 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 [7].

#### *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 behaviour,
- 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 behaviour 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 [8]; 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 [5].

### III. FORMS OF CONTINGENT PAY

#### *A. Individual Contingent Pay*

Base for individual contingent pay is interconnection of performance, competency, contribution or individual's skills with his or her financial reward. Contingent pay can be paid in the form of increase included into base wage or salary, or in

the form of one-time paid financial bonuses or as a combination of these two. The form's variation of these rewards is coming from individual forms of individual contingent pay, which are: (1) individual contingent performance related pay, (2) individual contingent competency related pay, (3) individual contingent contribution related pay, (4) individual contingent pay based on skills and (5) individual contingent pay based on employment length [6]. What can we imagine under individual forms?

#### (1) Individual contingent performance related pay

The essence of individual contingent performance related pay is that, if individuals receive financial reward which providing is connected to appraisal, classification (scoring) of performance, usually in connection with agreed objectives (results, tasks) [7]. Fig. 1 shows this graphically.

Individual contingent performance related pay can have a form of base wage or salary increase, or it is provided in the form of financial bonuses (variable reward).

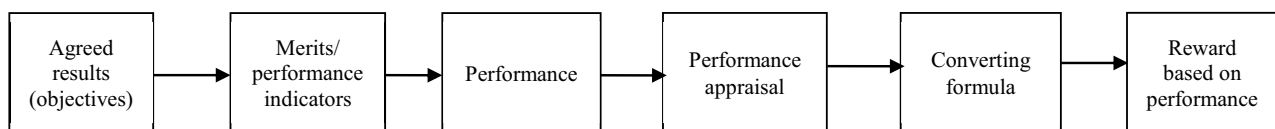


Fig. 1 Individual contingent performance related pay Source: [7]

First variant is *increase of reward within the base wage or salary*, thus within the framework of wage/salary range assigned to degree or levels in structure or structure of groups (kinds) of careers, or within the framework of wide-band structure zones. This increase is continuous, only rarely, if ever, it is taken away from the employee.

Rates and limits of reward increase usually derive from appraisal, classification, scoring, performance, executed while examining performance in the framework of performance management or from the appraisal executed especially for the purpose of remuneration. In some organizations the reward increase isn't derived from the formal appraisal but from assessment of how should the employee wage or salary increase in connection to performance, potential, level of wage/salary of his co-workers or employee market value.

For decision about the amount of reward increase is often used a certain formula in the form of wage/salary matrix as it is shown in Table III. It shows percentual increase provided based on various ratings of performance appraisal according to the position of employee's wage/salary in the wage/salary range [6].

Wage/salary progression is in grade structure usually planned so that it can decrease within the grade. The reason is for one assertion coming out of the learning curve, that growth of wage of salary shouldn't be higher in the initial work phases at a certain working position when it comes to the most intensive learning, and for second that employees should fairly quickly achieve middle or reference point in the payroll grade (market value of fully competent employee), but when they get above this level, they are already well rewarded and their wage or salary then doesn't have to grow so quickly.

TABLE III  
WAGE/SALARY MATRIX FOR INDIVIDUAL CONTINGENT REMUNERATION  
BASED ON PERFORMANCE

| Performance appraisal | Percentual increase of wage/salary |          |           |           |
|-----------------------|------------------------------------|----------|-----------|-----------|
|                       | Placement in wage/salary range     |          |           |           |
|                       | 80-90 %                            | 91-100 % | 101-110 % | 111-120 % |
| Excellent             | 12 %                               | 10 %     | 8 %       | 6 %       |
| Very effective        | 10 %                               | 8 %      | 6 %       | 4 %       |
| Effective             | 6 %                                | 4 %      | 3 %       | -         |
| Developing            | 4 %                                | 3 %      | -         | -         |
| Insufficient          | -                                  | -        | -         | -         |

Source: [7]

Second or additional possibility is a reward in the form of *financial bonuses*, which are not part of base wage or salary and employees don't have to receive them repeatedly. Individual employees can receive these bonuses if they achieve top limit of range of their wage/salary grade, or if they are appraised as fully competent individuals whose education progression fully corresponds with the learning curve. Reward amount usually corresponds to market rate.

Reward according to performance shows all positives and negatives of contingent pay (see paragraph D of this article). Practice showed especially big problems with its management. More frequently is now used individual contingent contribution related pay.

#### (2) Individual contingent competency related pay

The essence of individual contingent pay based on competency is that employees receive financial reward with regard to the competency level, which they demonstrate when performing their working roles and that in the form of increase of base wage/salary. It is a method of paying employees for their competency to work now and in the future [7]. Fig. 2 shows this graphically.

Similarly as in the case of individual contingent reward based on performance even in case of individual contingent competency related pay exists the possibility to *increase reward within base wage or salary*, meaning within the wage/salary range appointed to the grades or levels in the grade structure or in the structure's groups (kinds) of careers, or within the framework of wide-band structure zone.

Rates and limits of reward increase within the range usually come from appraisal, classification (scoring) of performance,

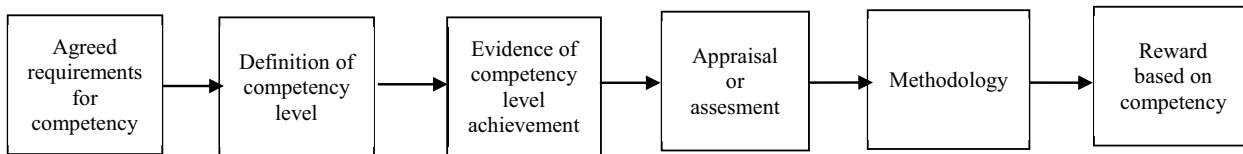


Fig. 2 Individual contingent competency related pay Source: [7]

when same wage/salary matrix as for individual contingent performance related pay is used (see Table III); rates and limits can be given be more general assessment of competency development.

In practice the individual contingent pay isn't used very often. The reasons are unclarity pertaining to: should the organization pay the employee because he/she has special competency or because he/she uses them? Of course, for using them. We can consider effective use of special competency only in the connection with performance. Because we are therefore concentrating on results, remuneration based on performance starting to have a features of remuneration based on performance. Therefore we can say that individual contingent competency related pay isn't anything else, than otherwise called individual contingent remuneration based on performance.

An opinion emerges, that a reward should be connected to both: to employee's work outcome (performance) but also to what an employee is bringing into work (competence). Therefore individual contingent contribution related pay is becoming more popular.

### (3) Individual contingent contribution related pay

The essence of individual contingent contribution related pay is that all employees will receive financial reward, which providing is connected to both, to assessment of work results performed by individual and to what this individual brings to

work in the form of level of competency, behaviour, and special abilities which influence these results [7]. In other words, the employee receives reward for both the performance (results, outcomes) and his/her competency (inputs). Fig. 3 shows this graphically.

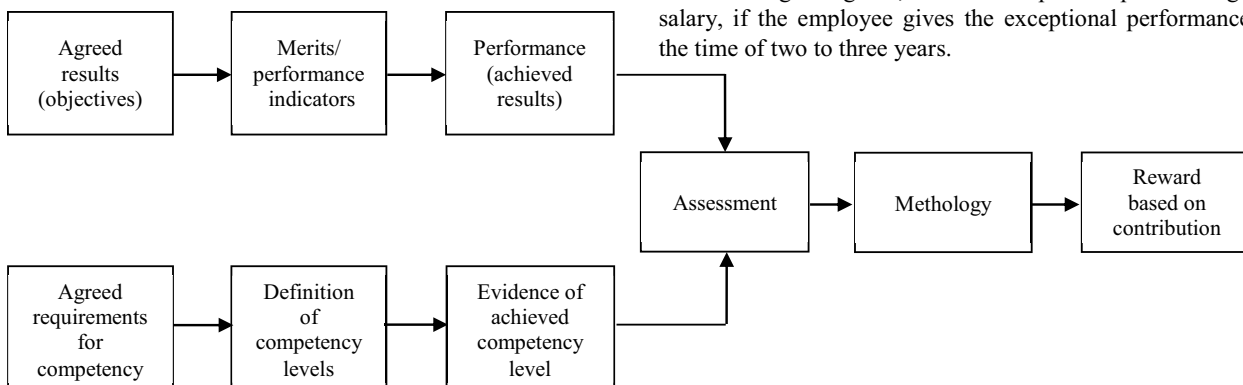


Fig. 3 Individual contingent contribution related pay Source: [7]

Individual contingent contribution related pay can have a form of permanent *increase of base wage or salary* within the wage/salary range or can be provided in the form of *financial one-time bonuses*.

Six possible *methods* how to provide individual contingent contribution related pay exist [6]:

1. *Using matrix formula* – reward is provided based on performance appraisal and competence of behaviour; its amount is given by wage/salary matrix, such as, for example is shown in Table IV.

2. *Separated, but currently applied increase of base wage or salary and pay of financial bonuses* – when determining base wage or salary the main factors are: competency, other secondary achieved results; for payment of financial bonuses the only factor are achieved results. Base wage or salary is paid for what the employees are able to do, financial bonuses for what they achieve.

3. *To the level of reference point of providing increase of base wage or salary deriving from the competency level, above the reference point paying financial bonuses* – in each grade, band or level is determined a rate of „reference point“, which includes working places with approximately same value, when reference point is defined as a wage/salary rate of fully competent employee achieving high level performance. Reference point therefore represents maximum level of total wage or salary, which can be expected by highly performing employee. For each grade, band or level is determined minimum level of total wage or salary, its increasing to the level of reference point is then deriving from achievement of defined competence level (usually three to four levels). Employees who give exceptional performance can repeatedly receive financial bonuses, which can, to the maximum set amount for given grade, become inseparable part of wage or salary, if the employee gives the exceptional performance in the time of two to three years.

TABLE IV  
WAGE/SALARY MATRIX FOR INDIVIDUAL CONTINGENT CONTRIBUTION RELATED PAY

| Performance appraisal | Percentual increase of wage/salary                       |  |  |
|-----------------------|--|--|--|
|                       | Appraisal of competency                                  |  |  |
|                       | Developing – still doesn't meet all competency standards | Fully competent – meets all competency standards | Highly competent – exceeds most competency standards |
| Exceptional           | -  | 8 %  | 10 %   |
| Very effective        | -  | 6 %  | 7 %  |
| Effective             | -  | 4 %  | 5 %  |
| Developing            | 3 %  | -  | -  |
| Insufficient          | -  | -  | -  |

Source: [6]

4. Rewards either in the form of increase of base wage or salary, or in the form of financial bonuses – employees in connection with their position in the wage/salary range receive combination of increase of base wage or salary and financial bonuses (see Table V).

In the example shown in Table 5 outstanding employees receive 10 % of their base wage or salary. The higher the employees are in the wage/salary range, the higher the proportion of their increase, which is paid as a bonus.

TABLE V  
WAGE/SALARY MATRIX INCREASE OF BASE WAGE/SALARY AND PROVIDING OF FINANCIAL BONUSES

| Position in range                   |                  | Competency appraisal |     |     |     |     |
|-------------------------------------|------------------|----------------------|-----|-----|-----|-----|
|                                     |                  | A                    | B   | C   | D   | E   |
| High - expert                       | Bonus            | -                    | 2 % | 3 % | 6 % | 8 % |
|                                     | Base wage/salary | -                    | 1 % | 2 % | 2 % | 2 % |
| Middle – mid-competent, market rate | Bonus            | -                    | 1 % | 2 % | 4 % | 6 % |
|                                     | Base wage/salary | -                    | 2 % | 3 % | 4 % | 4 % |
| Low – learning                      | Bonus            | -                    | 0 % | -   | 1 % | 2 % |
|                                     | Base wage/salary | -                    | 3 % | 6 % | 7 % | 8 % |

Source: [6]

5. Threshold remuneration – into the wage/salary range are incorporated one or two thresholds. Fig. 4 shows this graphically. So that employees get over the threshold and get into higher band of range, they must fulfil criteria of contribution, which define required level of competency and all performance (results) criteria which could be relevant.

Threshold remuneration is especially convenient where in some grade exists wide range and it is thought that increase of wage or salary must be under control. Advantage is that is this based on clearly defined and transparent criteria, which makes it more acceptable for both, the employees and unions. As an advantage can be considered that its efficiency depends on defining clear and able to assess criteria and on the participants' willingness to assess the contribution based on evidence about level in which the employees fulfill these

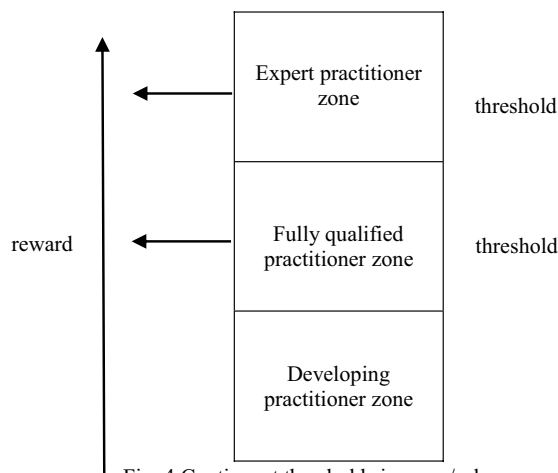


Fig. 4 Contingent thresholds in wage/salary range Source: [6]

criteria. Big role plays the manager's opinion and their ability use this method of remuneration fairly, consistently and objectively.

6. Holistic approach – can be used while assessing the contribution level, meaning possible rewards in the form of increase base wage or salary or providing financial bonuses. Considered is not only with what the employees contribute to the success of their team but also the level of abilities which they achieved and which one they will use. This approach depends on manager's opinion, on the communication about it, how it works, why just these decisions and not others were made, on the evaluation of contribution within the performance management and also if connection between this evaluation and decision about reward is evident and clear.

Although the individual contingent contribution related pay considerably differs from the individual contingent performance related pay, in the end the decisions about rewards still depend on the line managers, on their common sense and their willingness to spend time with this activity. Very important is organization's readiness for remuneration according to contribution, for its planning and implementation is necessary quite a lot of time.

(4) Individual contingent skills related pay

The essence of individual contingent skills related pay is a direct connection between increase of their financial reward and skills which they're acquiring and effectively using. It is necessary to know for which skills is the organization willing to pay the employees and what the employees have to do to prove their skills [7].

Individual contingent skills related pay works as following; in the organizations are defined blocks or modules of skills (those are composed of individual skills or groups of skills); if the employee adopts certain module or block of skills, he or she receives in advance clearly stated rise of financial reward. Of course, the organization must have a methods based on which can be checked it the employees have certain skills and if they can use them on in advance defined level, since the possibility of widening required skills must be secured.

Opponents of remuneration according to skills claim that it demands quite substantial funds for skills' analysis, education and training and even for the verification. Its defenders argue that it is essentially self-financing since it results in growth of productivity and operational efficiency of organization. Unfortunately, much evidence that it is really like this doesn't exist. Remuneration according to skills is not often used in practice.

#### *(5) Individual contingent service-related pay*

The essence of individual contingent service-related pay is that usually annual employee's increase of base wage or salary is connected to the length of his/her continuous employment either on one working position or in one grade of salary point scale. The increase can be taken away for inadequate performance; however in practice this rarely happens.

This form of individual contingent pay is very popular especially in unions, because all employees are treated equally. Its defenders claim that by applying it the following can be prevented: possible wrong decisions and manager's opinion that rewarding employees for loyalty in the form of employment length is correct.

Its opponents blame the individual contingent pay, that employees are not appraised based on how they contribute to effective functioning of organization, that good performance is appraised as the bad one, and that condition on which is individual contingent service-related pay based (with the length of practice is increasing) is wrong etc.

Despite these arguments against service-related remuneration, this traditional form of individual contingent remuneration is quite frequent in public and voluntary sector in health-care and education; but in a private sector it is not used much anymore [5].

#### *B. Team Contingent Pay*

Some organization prefers team remuneration to individual remuneration, and that from a two reasons. For one thing they consider quality team work as very important and they believe that team remuneration will improve it, and for another they are not satisfied with individual performance related reward because they consider it as a big obstacle in team work. Interest in team remuneration is quite substantial, but a real number of organizations which use it is rather small (see chapter 4 of this article).

The essence of team remuneration is providing the rewards to individual team members and that in the connection with performance of whole team [5].

The aim of team remuneration is:

- give a message that efficient team cooperation is considered as one organization's key value,
- help to clarify what is expected from teams in a way, that rewards are provided only based on achievement of in advanced set and agreed objectives and standards of performance, behavior, or based on satisfactory fulfillment of a project or its parts,
- providing incentives to support the team effort and cooperation of individual members.

Team remuneration works in a way, that total amount of

reward connected to team performance is divided among individual members.

To determine total team reward several ways are used in practice. Most often it is formula for determining team reward. This formula determines the relationship between team performance (appraised based on certain criteria, e.g. level of sales, customer satisfaction, level of customer service, processing time, correctness etc.) or achievement of in advanced agreed team and organization's objectives (e.g. certain level of productivity, implementation of quality measure etc.) and total reward allocated to team. Other possibility is to connect the reward to some general, subjectively appraised criteria (e.g. existence of value contribution of team to organization's performance).

The rewards are than allocated to individual team members either in the form of same amount for all team members, deriving usually from some salary scale, or in the form of percentage from wage or salary. In practice, more often used is the second method, which comes from the assumption that the base wage or salary reflects the value of individual contribution for the team [6].

Team remuneration can work well only under the conditions that quality team work is considered as an organization's key value and its significance is accepted by all participants, management actively supports the creation, keeping and developing of effective teams and that concrete teams:

- are independently working units, for which can be agreed clear objectives and standards,
- they have a considerable level of autonomy – most effective will be team reward in autonomy teams, which are self-managed,
- they consist of people, whose jobs are interdependent – team members realize that the team can achieve quality results only if all team members will cooperate well and they'll be collectively responsible for success,
- are stable – members are used to work together, they know what other team members expect from them and they know their place in team,
- are mature – well-built and established, when achieving objectives and fulfilling tasks, they are able to be flexible and they are able to exploit mutually complement skills of individual members,
- are composed of individuals, who are flexible, multiskilled, they are good team players, and despite this they are able to express different opinions, and it is for the well-being of the team realize it.

It is dealing with very demanding requirements which are not easy to fulfill. And this is also the reason why the team remuneration is used in practice in such a low extent.

And what advantages and disadvantages have the team remuneration? To advantages belong: we can encourage team work and cooperative behavior, clarify team objective and priorities, secure integration of organization and team objectives, reinforce organizational changes in the sense of bigger emphasis on teams in flatter and procedural organization, increase the level of flexible work in teams and encourage multi-skilled individuals, instigate less effective

team members to improve their performance to the level of team standards and serve as a tool to creation of self-managed teams.

Among team remuneration disadvantages, which in many organizations dominate over advantages belong for example: efficiency depends on existence of well-defined teams, some individuals can perceive this type of remuneration as unfair and it could be difficult to set performance indicators and implement methods of team performance appraisal, which would be considered as objective and fair. Sometime, situation can arise where members of inefficiently working teams are trying to move to another, highly performing teams, which could lead to break-up or bad view on the former team and it can worsen its reputation. However, if the organization will prevent these „exits“ it can lead to a state when the team members will be dissatisfied and their performance will be inadequate [5].

If the organization chooses to implement and use team remuneration it is necessary to perform the following steps:

- analysis of current level of conditions necessary to implement team remuneration in organization,
- identification of team, which will be provided with team reward,
- informing the employees about all aspects of team remuneration and their involvement in the system's creation,
- proposal of team remuneration system (formula, criteria for team performance appraisal, amount of total team reward, form of dividing it among individual team members),
- training of all participants in skills pertaining to team remuneration,
- own implementation of team remuneration (ideally is firstly to check the functioning of the system in two or three teams, eliminate possible deficiencies and only after implement this form of reward in all chosen teams) and its realization,
- monitoring and assessing team remuneration, eventually realize corrective measures [7].

### C. Company-Wide Contingent Pay

Some organizations prefer company-wide contingent pay: to individual contingent pay, which according to their opinion doesn't appraise collective effort sufficiently and to team remuneration where implementing conditions and functioning is quite difficult to fulfill [7]. Similarly as in team remuneration is practical to use company-wide remuneration rather in a low range.

The essence of company-wide contingent pay is providing rewards to employees in connection to performance of whole organization.

Objective of company-wide remuneration is:

- make possible for the employees to participate on the organization's prosperity,
- increase employees' loyalty to objectives and values of organization and to organization as is,
- instigate employees to higher interest about organization's issues,
- make employees to take part in plans to increase productivity, cost reduction or realization of other possibilities

for improvement,

- through approved system of shares ownership get for employee's tax advantage.

However, generally the company-wide remuneration doesn't ensure direct employees incentives, because the connection between individual effort of individual and collective reward is too far and perceived with difficulty.

Company-wide remuneration works most often in three types of formal systems:

- *Share from revenue or reward for increase of productivity (performance)*

Based on certain formula the employees receive reward – share of organization's financial revenues, coming from the growth of added value or other productivity indicator. In some systems, the formula includes even the performance indicator pertaining to quality, customer service, task fulfillment or cost reduction.

- *Profit sharing*

The employer pays the employees, who are entitled, special rewards (in cash or in shares, usually in the form of share options) derived from the organization's profit, that as a premiums to regular rewards. The amount of reward can be determined according to published or unpublished formula, or it could be completely left on the management's decision. Usually all employees are entitled to the share from profits, except the directors.

The profit's share differentiates from the share from revenue, since it is set wider than only on productivity growth. Many factors, which can't be under control by individual employees, contribute to profit. Share from revenue is trying to more specifically connect paid reward to productivity and performance, which are under the employee's control.

Three approaches how to calculate total amount intended to be divided into profit shares exist: (a) *in advance set formula*, which divides certain profit's percentage, although it clearly shows the relationship of paid reward to profits and it demonstrates managers' good will, it isn't flexible and amount determined to be divided can change substantially; (b) *not in advance set formula*, most used method, where the manager sets the shares on profits to considerable amount based on opinion, which amount is for the organization more „feasible“, although it makes possible to have divided amount under a full control, but because for its determination are not given any clear criteria, it can have a negative influence on bigger involvement and interest of employees in the organization; (c) „*threshold*“ formula, where threshold is set, into it isn't divided any profit, and there is defined maximum level of profit after dividing, where the management decides between these two amounts which amount will be divided.

The profit sharing could be set to individual employees based on four methods: (a) *percentage of wage or salary irrespective of employment length*, when the fact that profit sharing should be connected to the basic contribution of employee measured by his/her amount of wage or salary is respected; it doesn't consider the length of employment; (b) *percentage of wage or salary considering employment length*, when employees loyalty towards the organization is



rewarded; (c) *percentage of wage or salary considering individual performance*, with employees which are under the top level it is quite unusual method, since it is difficult to assess connection between individual performance and profit; (d) *fixed amount irrespective of reward's amount, time of employment or performance*, which is a very egalitarian and very rare approach.

▪ *Shares ownership system*

Employees have, of course, under certain circumstances, the possibility to buy shares of organization in which they work. Then possible financial rewards depend on the organization's prosperity. More detailed information about this form of company-wide contingent remuneration can be found in specialized literature focused on given problematic [6].

#### IV. USE OF CONTINGENT PAY IN ORGANIZATIONS OF MORAVIAN-SILESIAN REGION

In order to find out the level of contingent remuneration use by Czech organizations, the author of this article realized a research of utilization of this type of remuneration in organizations in one of the Czech Republic's regions, in the organizations of Moravian-Silesian region. It could be assumed that the level found by research in this region could be roughly the same in other regions of Czech Republic. For a more complex view on the problematic of contingent remuneration utilization, research in organizations within the whole Czech Republic would have to be executed. It would have to be a more thorough research, therefore the author focused only on one region.

##### A. Material and Methods

Subject of the research was to map problematic of contingent remuneration use in organizations in the Moravian-Silesian region. 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 2D of this article), (6) whether they would, despite certain negatives, recommend contingent pay to other organizations.

As a research method was chosen written questioning by means of pre-prepared questionnaire, which included 17 questions, from which 14 pertain to problematic in question, 3 questions were identification. Identification questions were aimed to find out the sphere of organization's activity, organization's size and existence of foreign owner or shareholder.

For the creation of respondent's group, in which the research was executed, the technique of simple random sample was used.

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 (including graphic interpretation), it took place from 18<sup>th</sup> November to 2<sup>nd</sup> December, 2009 [9].

##### B. Results

From total of 110 respondents, which were part of questionnaire research, the sphere of business at approximately two thirds (70) respondents represented entrepreneurial sphere (including non-profit organizations) remaining (40) respondents was represented by budgetary sphere. When it comes to the size, 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.

##### (3) 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.

(4) *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.

(5) *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.

(6) *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.

## V. 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 companies in Moravian-Silesian region executed by the author of this article. Overwhelming majority of organizations would recommend the implementation and use of contingent pay for its provable positives, and in spite of certain negatives.

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