

RELEVANT PARAMETERS CONCERNING THE PAYMENTS TO THE PERSONNEL

Introduction

The payments to the personnel are frequently a very relevant item in the financial documents of a business. Additionally, they use to be a major problem driver, creating dissatisfaction, complaints, grievances and strikes. In these circumstances, the debate concerning this theme assumes pertinence.

The present article intends to give a contribution to that debate, emphasizing the microeconomic dimension. For that purpose, it begins (first chapter) with a reference to some relevant literature – mainly of French authors - concerning the impact of managerial strategies on the payments to the personnel; followed by three technical chapters that discuss factors which determine the payment to an employee and, finally, enounce the most important fringe benefits.

The second chapter refers to the *job analysis* and to the *job description* and gives a particular emphasis to the *job evaluation*. Concerning this evaluation we focused only a method to do it: the *point rating method*.

But the effective earnings of an employee also depends upon:

- The performance evaluation and the performance premiums;
- The sharing of financial results.

So, we discuss these factors with some detail (third chapter).

The fourth chapter enounces other relevant factors to determine the earnings of an employee: seniority, inflation and increase in productivity, government regulations, financial ability of the business, attitude of labour representatives and specifications concerning the market of the labour force. It ends with a brief reference to the fringe benefits, a factor that frequently assumes a relevant role in the employees' standard of living.

1. Impact of managerial strategies on the payments to the personnel.

§. 1. Gazier, Bernard (1992).

The author says that it is difficult to present a global vision of the managerial strategies concerning the personnel. The links between the general strategies and the strategies concerning personnel, although essential, are frequently not explicit. Generally, assuming Porter's (1980) methodology, he says that a strategy of *cost leadership* is more concerned about the efficiency of the personnel, in order to reduce the inherent costs¹. On the contrary, a strategy of *differentiation* is not so concerned about the reduction of costs, since it is necessary to obtain qualified and engaged personnel.

In another perspective:

- A *strategy of growth*, which tries to launch new products or conquer new markets, needs a kind of personnel with an entrepreneurial personality, able to accept an important part of the earnings indexed to the business success;
- A *strategy of stabilization*, which wants to get the maximum from the existing situation, controls strictly the efficiency of the personnel in order to reduce the inherent costs, placing the creativity in a secondary level.

In a third (and original) perspective, the author made an approach to the managerial strategy concerning personnel using the following question: Is personnel considered as *flux* or as *stock*²? In the first situation, the employees are viewed as external regarding the company. On the contrary, in the second situation the employees are viewed as belonging to the company.

¹ The typical question about efficiency is the following: How to reduce the costs incurred to get a result?

² It is the use of different words to express the dichotomy between personnel as a *cost* or personnel as an *asset*.

When considering personnel as *flux* there are two dichotomies:

- The employees are considered as something to be used just for a while (*catch and leave*) or to be used for a long time (*catch and settle*);
- The employees are scarcely qualified or the level of qualification varies significantly among them.

When considering personnel as *stock* there are also two dichotomies:

- The employees have a fable link to the company (*external professional way*) or, on the contrary, have a strong link to the company (*internal professional way*);
- The employees' abilities can be improved as a group or individually.

According to the above referred situations and dichotomies, the strategies concerning personnel are as follows:

First frame: personnel as *flux*

	Scarcely qualified	Differentiated qualification
"Catch and leave"	settlement abroad or recruitment of expatriates (less cost)	differentiated payments
"Catch and settle"	"fordist" policy	"fordist" policy

Second frame: personnel as *stock*

	Improved individually	Improved as a group
External professional way	<p>“american style”: specialization and retraining</p>	<p>like in Italian “industrial counties”</p>
Internal professional way	<p>development of skills at long term</p>	<p>“japanese style”: turnover and multiple skills</p>

Wages and salaries are an essential component to characterize the above-referred strategies. So, the trend is as follows:

- First frame
 - Upper part: high flexibility concerning payment;
 - Lower part: payment is determined according to hierarchic status and seniority, which means that there is low flexibility;
- Second frame
 - Payment has a fixed component, according to formal qualification, hierarchic status and seniority; and a variable component, according to the performance evaluation (in an individual or group basis) and the financial results of the business.

§.2. Horts, Charles-Henri Besseyre des (1988)

According to the author, the general strategies of the management have the following consequences in what concerns the personnel:

- An *entrepreneurial strategy*, which characterizes the start-up of a company or activity, looks for innovative and competent employees, ready to assume responsibilities and risks, flexible (mainly in terms of time³); to whom must be granted attractive payment and a stable job, since these are essential conditions to retain the employees that the management needs to implement this kind of strategy;
- A *strategy of dynamic growth*, characterized by the search for a rapid growth taking advantage of some “gold vein”, still looks for innovative and competent employees, mainly “competent” since it is necessary to work exhaustively the “gold vein”; and, for that purpose, attractive payment and a stable job are still required;
- A *strategy of profit*, which characterizes the (mature) activities that try to keep a “normal pace”, requires efficient personnel; and so, in this situation, innovative skills, readiness to assume risk and flexibility are second level skills;
- A *strategy of liquidation*, in order to leave non-profitable activities, just requires the choice of the employees who must be discharged;
- Finally, a *strategy of retrieving*, when the company tries to regain positions, requires flexible and persistent employees; the latter characteristic being very important since, initially, the business cannot pay according to the effort required.

³ Whether in chronometric or in chronological terms. For more developments concerning this concept see Treu (1992).

§.3. Durand, Claude and others (nd)

According to the authors⁴, it was determined the following strategies and the inherent consequences regarding the personnel:

- *Strategy of development* (of the business), where employment policy – including in terms of payment - is the most harmoniously integrated into the management strategy;
- *Strategies of adjustment to the lack of demand*, where integration of exceeding personnel in other activities that are developing depends upon the voluntarism of the managers, maybe with less payment, less fringe benefits, more functional flexibility⁵; always considering that, without that voluntarism, the scenario is the layoff;
- *Strategies for the defence against global recession*, which entrains discharges (numerical flexibility) or government intervention in order to manage socially the problem of the exceeding personnel⁶.

Mainly in the second situation, it arises with pertinence the possible lack of adjustment between the competencies of the employees and the required competencies; which means that, at the same time, some are discharged and others are recruited. This problem is increased by the introduction of new technologies, since they deepen that lack of adjustment.

§.4. Sengenberger, Werner (1992)

The author stays that there are two basic strategies driving the processes of company restructuring: (1) cost reduction, mainly through personnel costs; (2) innovation, based on the design, just-in-time production, after-sales service, etc. The impact of these strategies in terms of labour flexibility (which includes the

⁴ Complemented by the empirical studies made by Villeval (nd) and by Outin & Silvera (nd).

⁵ It means the possibility that the company managers have in order to reorganize the work process and reallocate the employees. For more developments concerning this concept see Treu (1992).

⁶ Through early retirement, reallocation of exceeding personnel, professional training or even subsidies for the settlement of firms in areas affected by high level of discharges.

flexibility of payment) depends upon the existing system of labour relations. Mainly, it depends on whether those strategies are implemented in a company where the labour negotiations are collective or individualized.

Considering the company restructuring, the interaction between the basic strategies and the kind of labour negotiation results in the following (four) labour situations.

- Cost reduction and collective bargaining: *concessions*.

Characterized by collective agreements that impose stabilization or reduction of payments, more flexibility in terms of time or in functional terms; trying to regain competitiveness and safeguard, as long as possible, the level of employment.

- Cost reduction and atomised, even individualized, bargaining: *deregulation*.

Here, differently from the preceding situation, the management has more power in the negotiation. Those who defend this situation argue that the total – or, almost total - deregulation is essential to keep the jobs; since, if it is possible to lower the payments freely it is also possible to regain competitiveness and keep the level of employment. On the contrary, the interference of labour organizations, with the inherent safeguard of minimums or, at least, with the introduction of rigidities in the labour conditions, induces lack of competitiveness.

- Innovation and collective bargaining: *corporatism*.

The labour situation considered here is as favourable as broader is the labour negotiation. The most favourable situation is when the negotiation is between labour and entrepreneurial organizations with national scope, and include the government. This situation is also the most favourable in what concerns the introduction of new technologies⁷.

⁷ For this situation see also Caire (nd) and Vickery & Campbell (1991). It is usual to present Sweden and Germany as examples of *corporatism*.

- Innovation and atomised, even individualized, bargaining: *union-free human resources management*.

Namely in the United States of America, it is usual to find managers to whom the main goal is to avoid trade unions inside the company. This intention, if well succeeded, entrains a scenario where the negotiation is individualized or, the most, confined to the plant or company.

According to the present author, the innovative strategies, namely when associated to the collective bargaining (*corporatism*), represents the best solution in what concerns the earnings of the employees.

2. Job analysis, job description and job evaluation.

Job analysis is a study and systematisation of: (1) the operations that, on the whole, represent a job (*job content*); (2) the level of responsibility for financial resources, personnel, equipment, processes, safety and materials; (3) the scope of functional relations, inside and outside the company; (4) the requirements of the job in what concerns physical and psychological conditions, education, professional training and experience; (5) the natural and social environment of the workplace⁸.

The *job description* is an output of the job analysis and consists of a permanent registration of the key-characteristics of a job⁹.

The *job evaluation*, based on the job description, determines the worth of each job in relation to other jobs. So, it allows determining a scale of wages or salaries, subsequently adjusted by the following typical factors: (1) seniority of the employees; (2) legislation (for example, minimum-wage law); (3) the financial ability of the business; (4) the trade-union attitude; (5) supply and demand of labour.

⁸ See, for example, Cowling & Mailer (1998).

⁹ See, for example, Cowling & Mailer (1998).

The job evaluation is a task that must be done by a commission specifically implemented for that purpose, composed by employees and, possibly, by representatives both of the employer and of the trade-union; but without representatives of the personnel department, which must restrict its intervention to technical advise and coordination. The output of the work done by this commission must be stated in a manual, easily accessible to all employees.

The point rating method is generally presented as one of the most suitable methods to evaluate the jobs. The implementation of this method needs, **firstly**, the selection of a packet of typical factors to analyse, describe and compare the jobs – and this is the aim of the above referred job analysis and job description. **Secondly**, it is necessary to define the several levels of each factor. For example, the *professional experience* factor may have the following four levels: L1 – without experience; L2 – until five years of experience; L3 – between five and ten years of experience; L4 – more than ten years of experience. **Thirdly**, it is necessary to weigh each factor. Suppose that the *professional experience* factor worth 20%. **Fourthly**, it is necessary to assign points to each level of each factor. For example, if the maximum number of points to be assigned to a job is 500 and if the *professional experience* factor worth 20%, then $L1 = 0.2 * 500 = 100$ points, $L2 = 100 \text{ points} / 4 \text{ levels} * 3 \text{ levels} = 75$ points, $L3 = 100 \text{ points} / 4 \text{ levels} * 2 \text{ levels} = 50$ points, $L4 = 100 \text{ points} / 4 \text{ levels} * 1 \text{ level} = 25$ points. **Fifthly**, it is necessary to write the manual of evaluation. **Sixthly**, for each specific job it is necessary to assign points – inside a scale of points – to each factor. For example, in a company, which sells and maintains air conditioning equipment, the *financial responsibility* factor may worth 250, 200, 150, 100 or 50 points, according to the amount of that responsibility. In these conditions, suppose that the technician for the maintenance of air conditioning equipment receives 50 points in what concerns this factor. **Seventhly**, it is necessary to sum the points assigned to each job in what concerns each factor. **Eighthly** and lastly, being computed the total

number of points assigned to each job, it is necessary to translate these points into wages or salaries.

The last three phases must be applied, firstly, to key jobs; that is, to jobs which are at the same time: (1) well known by the personnel; (2) easy to compare with the other jobs; (3) considered, inside the company, as normally paid, according to internal and external circumstances¹⁰. Then, the other jobs – which means, the great majority – must be evaluated and paid according to the point rating method, but simultaneously taking into account the points and payments previously assigned to the key jobs. This prudent attitude allows the evaluators to detect and correct wages or salaries that – if implemented – would be considered as inequitable.

The last step – translate points into wages or salaries - must be done by ranges of points. In fact, it is not feasible to assign different wages or salaries just because the number of points is different. Suppose that the maximum number of points to be assigned is 500. In this case, it could be adequate to form ten levels of salary, each one corresponding to a range of 50 points; and, for example, the jobs whose points are comprised between 250 and 300 would have the same salary.

And, what is that salary?

For example, to determine the salary for jobs that worth between 250 and 300 points, it is necessary to find first a key job included in this range of points and, then, consider the salary of this key job as a *typical salary* and, therefore, a *target salary*. The jobs with points comprised between 250 and 300 ought to have this salary; or, at least, the average salary for these jobs ought to be near the typical salary and the standard deviation ought to be short.

Unfortunately, the reality is frequently not so perfect as it was stated above and, therefore, needs correction. The existing relation between points and wages or salaries must be adjusted to the correct one: it is necessary to improve the wages

¹⁰ When *evidence* is not enough to decide if the jobs are normally paid, it is necessary to recur to (1) the opinion of trade union representatives; (2) wage and salary inquiries.

or salaries of the jobs that are insufficiently paid and to reduce gradually (in order to minimize the dissatisfaction) the wages or salaries of other jobs that are excessively paid¹¹.

Frequently, the job evaluation is not so analytical as it was stated above. For example, it can be defined just the general characteristics of the jobs, to which correspond salaries. Suppose that level 1 corresponds to jobs (administrative, commercial, industrial, auxiliary) whose occupant (a) performs basic operations that just need basic education and (b) don't need previous experience, (c) under strict supervision / without independent judgement and (d) without any function of supervision. This process to evaluate the jobs is particularly suitable for little and medium-size companies.

The need to evaluate jobs that are structurally different justifies a previous division of these jobs into groups. For example, the following division could be adequate for evaluating jobs:

- Management;
- Administrative;
- Commercial;
- Technicians whose function relies on an university degree (for example, engineers, economists, biologists);
- Industrial;
- Auxiliary.

In these terms, it will be necessary to weigh the different factors according to each group of employees. For example, the factor *capacity to decide* must be weighed differently when considering the *management* group and the *auxiliary* group. And, even, some factors could be valid just to evaluate some groups of employees.

¹¹ In order to minimize the dissatisfaction, it is normal to reduce the wages or salaries just when the existing employees leave.

If the option is to evaluate the jobs by groups of employees, it is necessary to safeguard the equity among the groups, in order to avoid the conflict inside the company. In fact, it is necessary to be aware of the fact that every employee has a general idea concerning the relative worth of the jobs, even if they are substantially different; and, so, the argument “we are dealing with different kind of jobs” is not a panacea to avoid conflict.

The personnel manager must also be aware of the fact that job analysis, job description and job evaluation – the most perfect they could be – become obsolete as the time goes by and, in these circumstances, they need to be renewed. That is particularly true nowadays, since we are facing drastic technological changes that have deep consequences in the jobs shape.

Finally, we must refer that the majority of the managers don't evaluate the jobs formally. On the contrary, they just adopt – more or less – what is generally being paid. Concerning the formal evaluation of jobs, they would say something like the following statements:

(Hypothesis A) – For what? I pay according to the market...

(Hypothesis B) – It is a complex and endless task, considering the drastic technological changes we are facing nowadays. So, it is excessively expensive. Then, I pay according to the market...

(Hypothesis C) – It is not only an extremely complex task but also a factor to make unfeasible the (desired) functional flexibility that characterizes our company.

The objection corresponding to hypothesis A and B is particularly valid when we are dealing with jobs that have a high level of technical complexity.

The objection corresponding to hypothesis C characterizes the Japanese organizational culture, at least in what concerns some key companies and the industrial jobs.

3. The performance of the personnel and the sharing of financial results.

Even when there is a formal evaluation of the jobs, other factors affect the amount paid to the employees. Two factors must be referred immediately: (1) the performance (efficacy¹² + efficiency) of the employees, whether considered individually or as a group; (2) the sharing of financial results.

The payment according to these factors relies significantly on the *productivity* concept. The sharing of financial results is also affected by the quality of the management and by the environment of the company.

Concretely, productivity is the amount of useful goods or services¹³ produced in a unit of time. If individualized, productivity means hourly output per employee. Productivity depends on:

- Professional knowledge, theoretical and practical, and labour habits;
- Scientific, technological and organizational levels;
- Quantity and efficacy of the means of production;
- Natural conditions (clearly applicable to the agriculture).

Beginning by the **performance of the employees**, individually considered, the aim is to determine one or more criteria, based on the job description, to increase – eventually - the wage or salary previously determined by the job evaluation. In fact, the job description reveals subsequently a list of minimal and ideal requisites that people must have in order to occupy a specific job: if *these* are the characteristics of the job, then *those* are the inherent human requisites. So, how the performance of the concrete employee is positioned *vis-à-vis* these requisites? The incentive given (*performance premium*) will vary according to the

¹² The typical question about *efficacy* is: Which results were attained? The efficacy is an *ex libris* of the organizational theory known as *Management by Objectives*.

¹³ Which means, able to fulfil human needs.

performance, being null if that performance just equals the minimal requisites of the job.

How can the supervisor compare the performance of a concrete employee with those requisites? We point out the following typical methods:

1. (A) Quantity produced or sold (number of: pieces manufactured, operations performed... or goods sold) or (B) time saved in performing operations, always safeguarding a given level of quality; undoubtedly the most objective methods but not always feasible;
2. Qualitative scale (Example, considering the requisite *relation with colleagues*: A = excellent; B = very good; C = good; D = satisfactory; E = unsatisfactory);
3. Discontinuous qualitative scale (there are several texts about the same requisite, each one with a specific classification, and the supervisor must choose the most adequate to describe the characteristics of a subordinate);
4. Simple ranking, from the best subordinate till the worst subordinate;

Concerning the methods 2 and 3, it could be imposed that the supervisors construct a normal distribution curve, using the performance of the subordinates.

The *first method, variant A - quantity produced*, is historically associated to the payment wholly indexed to the performance (the *piecework*). For example, suppose the job evaluation concludes that the hourly wage rate must be € 10,00. Additionally, suppose the industrial engineers conclude that the normal output of the worker who is doing that job is 20 units per hour. In these conditions, the worker is paid at € 10,00 / 20 units = € 0,50 per unit manufactured.

However, the *first method, variant A - quantity produced*, is most often used as a complement of the wage. Suppose the worker above referred receives € 8,00 per hour, that is, 80% of the hourly wage rate determined by job evaluation. In this situation, it is automatically granted the payment of 16 units per hour (€ 8,00 / x units = € 0,50 per unit). So, the worker receives € 0,50 per unit manufactured, per

hour, above 16 units. If the output is 18 units he will receive $\text{€ } 8,00 + (18 - 16) * \text{€ } 0,50 = \text{€ } 9,00$.

The *first method, variant A - quantity produced*, whatever the way to implement it, usually has financial limits. In these terms, above a given number of units produced per unit of time the payment is reduced or even cancelled. Suppose the worker above referred receives $\text{€ } 0,25$ per unit manufactured, above 25 units per hour; and $\text{€ } 0,00$ above 30 units per hour. If the output is 33 units he will receive $\text{€ } 8,00 + (25 - 16) * \text{€ } 0,50 + (30 - 25) * \text{€ } 0,25 + (33 - 30) * \text{€ } 0,00 = \text{€ } 13,75$.

These financial limits are absolutely necessary in order to safeguard the quality of the work done. We could deduct from the above example that the industrial engineers concluded: (1) it is impossible to manufacture above 30 units per hour and, at the same time, preserve the defined requisites of quality; (2) it is not acceptable a production under 16 units per hour; (3) the optimal output is 25 units manufactured per hour.

The *first method* can also be applicable in its *variant B - time saved in performing operations*. Still using the above example, if the normal output is 20 units per hour - which means 3 minutes to manufacture each unit - and the effective output is 21 units per hour, the worker saved 3 minutes (5% of an hour). So, the payment is $\text{€ } 10,00 * 1,05 = \text{€ } 10,50$ for that hour. If it is automatically granted the payment of 16 units per hour (which means $16 * 3$ minutes = 48 minutes), the employee receives, above the granted payment, $(21 * 3 \text{ minutes} / 16 * 3 \text{ minutes}) - 1 = 31,25\%$; which means that the employee receives $\text{€ } 8,00 * 1,3125 = \text{€ } 10,50$.

The payment according to the performance of the employees, individually considered, had its peak between the last quarter of the nineteenth century and the generalization of the assembly line¹⁴. It was the time of the 2nd Industrial Revolution, when Frederick Winslow Taylor lived: the automation was enough developed to allow, satisfactorily, the objective evaluation of the potential pace of

¹⁴ The first assembly line was implemented in 1913, at Ford Motor Company, in Detroit - USA.

work but, at the same time, the effective pace of work still depended to a great extent on the effort of the employees, individually considered.

Afterwards, the *fordist* production – where the machines impose the basic pace of work – emphasized the premiums given to groups of direct productive employees, placing in a second range the individualized premiums. In fact, when considering how the assembly line works, a question inevitably arises: is it suitable to give individualized premiums, if the improvements in performance rely, mainly, on the interaction between technology and the group of employees; and not on the sweat of each employee, individually considered?

The displacement of the assembly line by the concept of semi-autonomous group of (directly productive) employees, particularly notorious during the 80's and 90's¹⁵ – but, nowadays, already contested – didn't change at all the validity of the group premiums. On the contrary, since the group premiums are, at the same time, an incentive for the professional training; and the professional training of each member improves significantly the performance of the group, with financial benefits to all members.

The *first method* to determine the performance premium is also applicable to the group of workers. Suppose (1) we adopt the *variant B - time saved in performing operations*, (2) the group has six employees and (3) the industrial engineers concluded that the normal output is 20 units per hour * six employees = 120 units per hour. If the effective output is 126 units, the workers saved 3 minutes (5% of an hour). So, the payment is € 10,00 * 6 * 1,05 = € 63,00 for that hour; which means, after divided by the six members, € 10,50 per hour.

The continuous evolution of the productive processes resulted in the increasing contribution to the productivity coming from employees that don't contribute directly to the output. So, resulted in the gradual emergence of integrated systems

¹⁵ In occidental Europe, the Volvo factory in Kalmar (Sweden) became the most notorious case study in what concerns the use of the semi-autonomous group of employees.

of sharing the financial result by all the employees, taking into account the performance or proportionally to their wages or salaries.

The *first method* to determine the performance premium, *variant A - quantity sold*, is materialized in what is usually known as *sales commissions*. Can be used as a unique kind of payment or as a complement of the salary. Concerning the latter, suppose for example that each salesperson receives, as a basis, 80% of the salary determined by the job evaluation, and receives the other 20% as sales commission if the defined objectives are attained.

The sales commissions must have financial limits, too. In these terms, above a given number of units sold per unit of time the commission must be reduced or, even, cancelled. There is a simple reason for this: to avoid situations where the salesperson just looks for the immediate sale, neglecting everything else; namely, neglecting whether the development of a sound relation with the client or the back-office work (statistics, professional training, information to supervisors...).

The methods 2 and 3 to determine the performance premium are well suited to employees whose jobs are diversified, done atypically or whose output is difficult to quantify – it is the case of the managers, the administrative employees and some auxiliary employees as, for example, the *attendant*. Additionally, these are the only methods able to evaluate explicitly the acquisition of competences by the employees. Usually, these are the methods that support what is generally called *merit evaluation* and the subsequent *incentives according to the merit*.

A possible way to avoid bias when using any of the last three methods is to involve the supervisor of the supervisor in the evaluation.

A variant of the performance premium consists in rewarding the suggestions given by the employees. Concretely, it will be given a premium to the author of a suggestion that improves the performance.

The concession of performance premiums is a way to ease the pressure of the personnel in order to progress automatically, whether on the level of wages or salaries; or, even, on hierarchy with just a financial motivation. It is also a way to increase the intensity of work¹⁶, since it expressly integrates this intensity into the formation of the wages or salaries. Finally, the concession of performance premiums is a way to dissimulate the dependence of the employee from the private owner of the means of production; since, relying on these premiums, it is highly probable that the employee feels – incorrectly - much more independent.

The performance premiums have a great potential to generate tensions and conflicts, due to the following reasons:

1. If they are a trick to reduce the wage or salary based on time;
2. If the norms to measure the performance and to distribute the inherent premiums are not clear, precise and well known by the employees;
3. If they are used without equity, for example, given to the employees that are directly productive but not to those who supply them with raw materials; and, particularly, if they are used as a way to break the solidarity among the employees;
4. If they stimulate the hostility of the majority of the employees against those who can be called “premium hunters”; particularly if the premiums intend expressly to create this kind of people;
5. If the exigency to attain the objectives – necessary to get the premiums - is excessive, considering the typical performance of the employees;
6. If the effective improvement in the performance of the employees, entraining an increase in the amount of premiums / financial effort of the company, leads whether to an increase in the level of objectives required to get the premiums or to their reduction;

¹⁶ Estimated by the physical and psychological energy consumed in a given unit of time.

7. If the employees can lose the premiums for external reasons, as it is the case of the truck driver who lose its premium due to a detainment of the truck, for repair, that last more than usual;
8. If the suggestions given by the employees are refused with not convincing arguments, particularly if, later on, an idea equal or resembling the previously refused is implemented under the argument that it improves the performance.

In what concerns the **sharing of financial results**, one typical method to do it is to complement the basic payments with a percentage of the increase verified in the value-added (VA) of the company¹⁷. Suppose there is a company where it is usual to share 10% of the increase verified in the VA. In these terms, if in year X that increase is 15%, 1,5% ($0,10 * 0,15$) is to be shared among the personnel, proportionally to the salary, for example, by issuing stock explicitly to the employees.

Another typical method to share financial results (in this case, indirectly) is to do it according to the evolution of the ratio *personnel costs / sales*¹⁸, which means that, when this ratio reduces - and according to that reduction - all employees receive a financial incentive proportionally to their wages or salaries. This financial incentive must have the following characteristics:

- It must represent a percentage of that reduction (for example, 60%);
- It must be shared among the personnel on a monthly basis;
- Just a part of it must be shared, in order to make a fund for sharing in those months where the ratio doesn't reduces; and, by this way, it is possible to stabilize the payment, month after month;

¹⁷ The value-added is the company's output minus the value of the inputs it purchases from other companies. We remember that, typically, the individual productivity = VA / number of employees = VA per employee. Frequently, the productivity is shown as VA per employee *per hour of work*.

¹⁸ The system described here corresponds to what is known as *Scanlon Plan*. See, for example, Pigors & Myers (1981) and Dessler (1994).

- If the above fund remains until the end of the year, then the remaining must be shared.

Suppose the ratio *personnel costs / sales*, in month 1, is $100 / 500 = 20\%$; and, in month 2 it is $100 / 700 = 14,3\%$. If the ratio had maintained its value in month 2, it would be $140 / 700 = 20\%$. So, from the month 1 to the month 2 there was a reduction of the personnel costs *vis-à-vis* the sales, which amounts to 40 monetary units. If the financial incentive to share is 60% of the reduction, then it will be $0,60 * 40 = 24$ monetary units.

Finally, there is the method that consists in sharing a part of the net income of the company (or the pre-tax income or the income before tax and after dividends) by the employees proportionally to their wages or salaries.

Like the performance premiums, the sharing of financial results has a great potential to generate tensions and conflicts. The reasons are almost the same, too. We just emphasize two of them.

Firstly, the sharing of financial results is often blamed as a corporative measure, implemented in order to integrate the employees into the objectives and strategies of the private owners of the means of production. That is why the labour representatives frequently criticize it, particularly when they look at it as a trick to reduce the wages or salaries and the performance premiums.

Secondly, the sharing of financial results, as it was presented above, relies on other factors than the productivity of the employees; namely, (1) the quality of the management and (2) the environment. So, it can injure financially the employees just because the economic conjuncture is not the best or because the management made some mistakes.

As a tendency, the sharing of financial results is relatively more important as a form to reward the top managers. In the USA this practice is old and well

integrated into the business culture. In occidental Europe, since the 80's this practice is becoming more and more common.

Concerning the performance premiums and the sharing of financial results, it must be noted the relevant experience implemented in USSR, following the economic reforms of the 60's.

These economic reforms had, as an essential component, the improvement of the incentives given to the employees. To attain this objective, the *gross operating income* (GOI) of a typical industrial company was deducted from – among other figures – an amount to a *material incentive fund* (MIF) and another to a *socio-cultural fund* (SCF). The first consisted whether in performance premiums or in solidarity payments. The second aimed the following objectives:

- The improvement of socio-cultural and medical services;
- The building and maintenance of houses and socio-cultural equipments.

The funds were constituted according to the following formulas:

$$\text{MIF} = \{[(p * a) + (s * b)] * w\} / 100$$

$$\text{SCF} = \{[(p * a') + (s * b')]\} * w / 100$$

p = profitability, on an annual basis (%).

a = norm to assign funds to the MIF, for 1% of profitability.

a' = norm to assign funds to the SCF, for 1% of profitability.

b = norm to assign funds to the MIF, for 1% of the increase in the amount of sales.

b' = norm to assign funds to the SCF, for 1% of the increase in the amount of sales.

s = increase in the amount of sales (%).

w = wage and salary fund (= sum of all the wages and salaries paid).

If the company would surpass the planned objectives, concerning whether the profitability or the amount of sales, a , b , a' , b' would be reduced in 30% when multiplied by the part of p and s above the planned objectives. This was to avoid the deliberated set up of loose objectives by the managers, in order to surpass them easily and simulate a well-managed company.

Finally, we emphasize that the distribution of performance premiums and the sharing of financial results must be based on the negotiation between the management, the personnel and their representatives. If what prevails is technocracy instead of negotiation, it will be lost a major part of the potential to motivate that these incentives have; and this is worse than to contradict supervisors and other managers who consider negotiation as an interference into their domains.

4. Other relevant factors to determine the payment to an employee. Fringe benefits.

Typically, the following factors have a relevant influence on the effective earnings of the employees: (1) seniority; (2) inflation and increase in productivity; (3) government regulations; (4) financial ability of the business; (5) attitude of labour representatives and (6) specifications concerning the market of the labour force.

Seniority of the employee is financially rewarded by the automatic progression of the wage or salary. Pay according to seniority means, implicitly, to accept that the simple continuity of the employee inside the company improves his performance: (1) thanks to the knowledge of facts that, although belonging to the past, are necessary to solve correctly present and future problems; or, (2) thanks to the social competences he developed year after year and the subsequent ability to solve problems simply because he has a good relationship with Mr. A or with Mr. B.

In these terms, for example, for jobs whose points are comprised between 250 and 300 it can be defined a salary for the entrants and increases for each seven years of permanence on the same job.

Inflation is commonly linked to a reduction of the purchase power of the employees, justifying the frequent inclusion into the labour agreements of clauses providing automatic increases in wages and salaries according to the rise – verified or expected - in the Consumer Price Index. Notwithstanding, as an opposite trend, the **increase of the productivity** in branches producing goods and services that integrate the normal consumption of the employees make these goods and services cheaper; and imply an increase in the purchase power of the wages or salaries. By this way, it is possible to reduce their part in the national income and, at the same time, increase the quantity and variety of goods and services those wages or salaries can afford.

The most relevant **government regulation** in what concerns wages and salaries is the *minimum-wage law*. This concept, if indexed to the price of a “market basket” of essential goods and services, implies a correlation between the earnings and the physical and psychological needs of the employee; and not between the earnings and the ability of the employee to satisfy the physical and intellectual requisites of a job.

The **financial ability of the company** is influenced mainly by the following factors:

- The elasticity of the demand for the goods and services produced, in terms of price and income;
- The effect of the conjuncture (economic, political and ideological);
- The strength of the competitive forces that affect the economic branch (rivalry among existing firms, bargaining power of buyers and suppliers, threat of substitute goods or services and of new entrants);

- The relevance of the fixed costs;
- The efficiency of the company.

In what concerns the **attitude of labour representatives**, just a single reference to the fact that, when different employees – may be of the same kind and working at the same department - are represented by different trade unions, this has generally a negative impact in the determination of a fair range of salaries.

About the **specifications concerning the market of the labour force**, three cases must be emphasized.

First, is the possibility that two or more jobs, although evaluated with the same points, have different attractiveness. So, *ceteris paribus*, the easiness to recruit is also different. In this circumstance, the job or jobs less attractive must be better paid than the more attractive.

Second, particularly applicable when evaluating top managers, a job can be commonly / “in the market” over-paid *vis-à-vis* the job evaluation. In this circumstance, it is better not to change the payment but, on the contrary, consider that job as an exception.

Third, when the employees are placed in a region or country where the cost of living and the earnings are higher, there are two possible attitudes to avoid the rejection or dissatisfaction of the employees. The first one consists in paying a *subsidy for displacement*. The second one consists in making a scale of wages or salaries just directed to those employees.

Beyond the payments *stricto sensu* there are the **fringe benefits**. Some of them are imposed by the law and others are conceded by the company on a voluntary basis: pensions in the case of disability and retirement; medical care and other benefits in the case of sickness and accident; life insurance; maternity leave with payment; day care centres for children; compensation for unemployment; mess, where the meals are less expensive, or subsidy for lunch; company bus; company

car and apartment; parking; low-interest loans; travels during vacations; costs for spouse when travelling on company business; ... Considering the benefits that are given by the company on a voluntary basis, they can be given whether rigidly or according to the choice of each employee. In the first situation, it is conceded a rigid group of benefits. In the second situation, on the contrary, each employee chooses what considers being the most interesting package of benefits among a given universe.

These benefits, when conceded by the company on a voluntary basis, tend to assume greater relevance as a payment of the managers and technicians of high rank. So, they tend to increase the disparity of income within the company; something that has a great potential to generate tensions and conflicts.

One of the most relevant benefits – conceded, either by the employers or by the public authorities - is the financial compensation for the physical or psychological damages caused by professional accidents or diseases. This compensation can be transferred to insurance companies. This benefit, which is generalized in the euro-atlantic societies, is something relatively new and represents a significant cultural advance. In fact, since the manufactures of the XVIII century till the end of the fourth decade of the XX century it was generally considered that professional accidents or diseases were problems that the employees had to solve, either by their own initiative - eventually paying for mutual insurance associations - or by asking for the help of charitable institutions. Unfortunately, another significant cultural advance has still a long way to be fully effective: the training of the employees in order to prevent professional accidents or diseases.

Finally, fringe benefits have a great potential to be used as a trick to reduce the basic payments, under the assertion that the stagnation of these payments is fully compensated by the concession of more fringe benefits. It is because of this that the labour representatives sometimes criticize them.

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