

# WAGE FLEXIBILITY IN CONTEMPORARY SOCIETY

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**Abstract:** The present article has as an objective to offer the most efficient solutions so that our country reach the level of economic development associated to the West European states.

It proposes the division of flexibility in three components, namely: internal flexibility, external flexibility and wage flexibility. The analysis performed within the present study will emphasize the wage flexibility.

Wage flexibility can be classified in four components:

- ✓ Plans of individual and group incentives;
- ✓ Plans of assigning wages out of productivity;
- ✓ Plans of distribution of profits and respectively
- ✓ Plans of suggestions.

At the same time, the incentive plans are under the incidence of internal and external influence factors. The present study proposes to undertake an analysis of the two dimensions.

To sum up, flexibility of labour market in general and flexibility of wages in special, contribute to the increase of employees' motivation at the workplace, an aspect that reflects in the increase of labour efficiency, through this the bases of economic development on a medium and long term being put.

It is necessary that the governmental strayegy, independently of its orientation, propose as its objective a budgetary policy intended to guarantee the continuous flexibilization of labour market, concomitantly with the ensurance of employees' security irrespective of the company where they develop their activity.

## Introduction

According to Son Liana et al. (2007) flexicurity, that has two biunivocal dimensions, namely: a flexible labour market concomitantly with the guarantee of employees' security, is nowadays one of the most important problems in the world for ensuring the economic development on a medium and long term, a reason for which it has to be taken into account by all the economic agents worldwide. It is necessary that it be applied in the context of strictly complying with action directions – axes – afferent to the Lisbon Strategy, revised, formulated by Jose Manuel Durao Barroso. Only in this way the mentioned strategy can reach its purpose, namely the one that **at the horizon of the year 2010 there be created not less but 6 million workplaces on the background of the generation of a medium economic increase at the European Union level of approximately 3% per year.**

The axes of the revised Lisbon Strategy are the following:

- ✓ To make Europe a more attractive place for investments and for working, by accomplishing an internal market in those fields where there is place for increase and employment;
- ✓ It is necessary that innovation and knowledge be put in the service of economic increase on a medium and long term, without overproduction, and on this purpose it is necessary that 3% of the GDP should be directed to the fields of research, development, innovation;

✓ Creation of more and more attractive workplaces. The principle is that more and more individuals would be attracted on the labour force market by reducing unemployment among young people and by modernizing the social protection system.

Regarding the flexibility typology, we can distinguish among internal flexibility, external flexibility and **wage flexibility**. The present study proposes to concentrate on the last of these categories.

According to [French Wendell, 2006], wage flexibility is translated through transposing into practice some incentive plans / programs for employees. They divide into the following categories: 1. plans of individual and group incentives; 2. plans of assigning wages out of productivity; 3. plans of distribution of profits and 4. plans of suggestions. Following, we will undertake a detailed analysis upon these categories of plans.

## 1. Plans of Individual and Group Incentives

### 1.1 Merit Payment Plan

Through the **merit payment plan**, wage increases, known as **raises depending on merit**, are determined in correlation with the performance at workplace, the employees that reach a certain level of performance earn a raise to the basis salary that varies between 15 and 30 % depending on the organization.

Organizations with exclusive or main private capital, but also public companies tried to implement a system to stimulate employees for increasing their attachment to the enterprise, an aspect that has positive repercussions both upon work efficiency, and upon the position occupied by the firms on internal and international markets.

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

### 1.2. Incentive Plan for Employees in Production

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

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

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

### 1.3. Incentive Plan for Employees in Sales Sector

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

One of the **advantages** of commission-based payment is that the present system is closely linked to the income and profit obtained by the firm. Usually these are stimulated, but when the company passes through a recession period, a commission-based system allows the diminishing of its costs. The main **disadvantage** of this system from the employees' point of view is represented by the fact that their standard of living can be lower than if they were paid the basic wage.

### 1.4. Incentive Plan for Management Employees

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

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

Another form of incentives is represented by the **sale of shares**. Through such a plan, the managing staff or the executional one has the right to buy a certain number of shares of the company to the established price on a certain date. The number of shares that each person is entitled is in direct correlation with the performance of each employee. If the value of shares is superior to the predetermined price, then the person

that owns them obtains a substantial profit from the exercise of the right of sale upon these. In the contrary situation, this right will not be exercised.

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

## 2. Plans of Sharing Earning from Productivity

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

### 2.1. The Scanlon Plan

This is a well-known plan of earning distribution that not only allows, but it also requires a massive participation of employees. The plan grounds on a ratio between the costs of labour force and productivity. When the costs of labour force decrease compared to productivity, employees are entitled to receive bonifications. When costs related to labour force do not decrease, there are no possibilities of dividing savings. Normally, all the employees benefit from the cost savings, also including employees from production, the ones in sales, supervisors etc.

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

### 2.2. Rucker and, Respectively Kaiser Plans

Another group of systems of rewarding and participating regarding the receiving of bonuses for diminishing the costs of production is represented by the Rucker respectively Kaiser plans. The Rucker Plan ressembles to the Scanlon Plan, but the

granting of bonuses has at its basis a more complex analysis including here the economic audit of activities for the preceding years. This audit is used for designating the professional verification of some activities, procedures, processes for expressing a competent, well-founded and independent opinion on the basis of reporting to a quality standard. Through the Kaiser Plan, savings to the labour force, deliveries or materials based on the oncrease of efficiency are shared with the employees. The company benefits of the of the advantages resulted in a ratio of 67.5%, the rest of 32.5% being distributed to the employees under the form of monthly benefits.

### 2.3. The Lincoln Plan

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

### 2.4. The Improshare Plan

One of the newest plans of allocate earning from productivity is the **Improshare Plan** that is correlated in a less extent with participation compared to the other plans mentioned. This plan was developed at the Mitchell Fein Company from the United States, that incorporated in the plan the seif improvements of traditional plans of individual and collective rewarding. The plan was adopted by American companies such as Firestone, Rockwell International Corporation, Stanley Home Products etc. This plan is based **on the accomplishment of a pre-established number of items in a time, measured in hours, shorter than the envisaged one**. For example, if in a company there is envisaged to accomplish three clothing items in eight hours, and the employees of the respective company fulfill this objective within six hours, then for the time savings of two hours they receive a bonus with a value of 25% from their daily remuneration. In the situation this objective is realized, the resulted earning is distributed by the company to the employees.

The present plan distinguishes by the fact that the participation of employees within the commissions and the consideration of employees' suggestions regarding the improvement of work efficiency are **optional**. For this reason the leading staffs of the companies put a smaller accent on the employees' participation than on the corresponding rewarding system. For a plan to have success in a company without trade unions, it is necessary to exist a minimum level of confidence and cooperation between the managing staff and employees.

### 3. Plans of Profit Allocation

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

Following, we will analyze the typology of these plans.

#### 3.1. Plans of Current Distribution

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

#### 3.2. Differenced Repartitive Plans

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

### 4. Suggestion Plans

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

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

Ultimately, according to [Halloren Jack], there are not to be neglected also the factors under the incidence of which the incentive plans are. We can distinguish between: A. external influence factors and B. internal influence factors.

#### A. External Influence Factors

The framework laws have an impact upon incentive systems in the respect they put an inferior limit within these plans through provisions linked to the minimum salary. Additionally, laws establish rules referring to the basic salary and payment of supplementary hours and specify the documents that have to be kept updated. Bonuses or commissions depending on production, efficiency or worked hours have to be included in the regular installments of payment and in the calculation of the payment of supplementary hours. From these provisions there are excluded presents, bonuses for Christmas or for other special occasions, payments made following allocation of profit and the savings plans.

Additionally, plans for allocation of profit have to be approved to the Departments of Treasury for obeying the laws regarding the income taxes.

Trade union leaders do not share all the policies with respect to the incentives systems; in fact, the attitude of trade unions varies from opposition up to enthusiasm. Some incentives plans were adopted at the trade unions' insistence. Others were dropped dead following their pressure. Along the time, the attitude of trade unions evolved from bitter opposition to the desire of negotiating upon the details of certain plans and of monitoring their administration. It is to be remarked the fact that the employees within the American motor cars industry had put pressures for the allocation of profit for approximately a quarter of a century, but this plan was not adopted until 1982 when it was successfully negotiated with Ford and General Motors. However, the position of the workers from the motor cars industry upon these plans is not an opposite one; the trade union thinks that the allocation of profit and of productivity could constitute a supplement to the structure of basic salary that would protect workers against poverty.

#### B. External Influence Factors

Some important factors influence the selection and administration of incentive plans in a particular framework. Very important is the **technology** used by the organization. For example, the payment system depending on the number of pieces is rarely used if the work rhythm is governed by machines. Another important factor is represented by the **dimension of the unit for which are measured earnings regarding the performance**, that is if the incentive plans are focused on individuals, groups, organization as a whole or a combination of these factors. Another factor is **participation**, at what extent this has an impact upon selection, design and administration of plans and at what extent employees are encouraged to cooperate with those situated at the same hierarchical level and with the supervisors for the improvement of work productivity.

Another important factor refers to the **managerial psychology, the organizational culture and the climate**. If the **managerial psychology** bases upon the idea according to which all the employees can directly benefit of the organizational earnings, the organization can orient to a wide incentive plan that will allow the employees to „allocate the welfare“. If the **culture of the organization** supposes that the top management would be omniscient, that the role of the employees is that of doing what they are said to and that people that ask questions or make suggestions are troublesome, a participative incentive system cannot be put into work. If the **organizational climate** includes much inconfidence, an incentive system, for being successful, has to be presented in a simplified manner.

Taking into account the fact that both in the organizational culture and in the company's climate certain changes can occur, incentive systems can be modified by consensus. For example, having in view that in an organization reigns a climate of trust and competence, a company can pass from an individual incentive plan to a wider participative plan that would include work in extended collectives.

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

Therefore, we can draw the conclusion without the possibility of any doubt that the flexibility of the labour market in general and the wage flexibility in special contributes to the increase of the employers' motivation at the workplace, an aspect that is reflected in the increase of the work productivity, through this being put the bases of the economic development on medium and long term. At the same time, on the purpose of realizing this strategic objective, so that as until 2030 Romania would recover the differences existing at present in comparison with the countries that are senior in the European Union, it is necessary that the governmental strategy, independently of its orientation, should propose as an objective a budgetary policy intended to guarantee the continuous flexibilization of the labour market, concomitantly with the insurance of employees' security irrespective of the company where they develop their activity.

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