

ANALYSIS OF LABOR PAYMENT PRACTICES AND FORMATION OF LABOR REMUNERATION

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Abstract

The most important obligations of employers towards the staff are to ensure an adequate remuneration of labor. This management process is directly related to the company goals set within its budget and the pay systems applied. The more direct the relationship between workers's income and company profits are, the closer are the interests of workers to the interests of the employer, because being engaged in in the work process people are convinced that if they succeed in helping the company's goals, they will also help themselves.

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JEL Codes: J2, J3, M54

The most important issue in the system of labor remuneration is the formation of wages. The wage determines the value of the labor force and the results of labor, expressed in monetary units, or in other words, the salary is the monetary value of the labor invested by the worker in the output produced. With better financial results, the company is able to pay higher salaries, bonuses and increments and thus to attract more qualified personnel, which in turn guarantees a higher degree of competitiveness of the company. Therefore, the employer has to choose mechanisms and rules of remuneration to make sure that when the company is profitable, its employees will understand this by the income they receive.

In practice, there are dozens of payroll systems, whereby most of companies do not disclose their own payroll systems, justifying this with embracing and protecting corporate secrecy. Whatever the system is, it must be periodical and, if necessary, concretely analyzed and refined.

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Among the basic methods of salary formation are the systems of remuneration, depending on the qualification of the employee and the duration of the employee's service in the organization. The system of remuneration, depending on the qualification of the employee, is carried out in stages - from the lowest to the higher qualification. Workers are being recruited into a lower-ranked company and they gradually move upwards, increasing their skills, demonstrating a new level of competences. Such a system guarantees a higher remuneration for the most skilled workers and thus stimulates them to acquire higher qualifications. The advantage of this pay system is that it contributes to the personal development of workers. Through this way of remuneration, the employee is required to increase the level of competences, which in turn increases the contribution to the company and, consequently, the company's well-being (Georgiev, 2012, p. 82).

The system of remuneration, except by accounting for qualifications, can be formed on the basis of accounting for the traineeship of the workers in the company. Its principle is analogous to the system of remuneration, depending on the qualification of the employee, the difference between them being that the criteria for increasing salaries do not depend on the level of qualification, but on the employee's service duration. It should be noted that for many business types, the remuneration system is unacceptable, since the existing corporate rules are primarily aimed at promoting craftsmanship, work effort and higher results. Wage-based pay systems which respect only qualifications or only work experience have a number of common disadvantages. First of all, they lack the real motivation of the staff. These systems belong entirely to the past, not to the future. They encourage an increase of the qualification level or the duration of services provided in the company, rather than an increase in the productivity that every company is aiming for.

For remuneration systems, it should be noted that there is a solid international experience based on two main approaches:

- the Japanese experience, based mainly on social factors in the growth of the employee;
- the American experience, based on the principles of individual wage formation.
- The Japanese remuneration system is based on the following principles:
- the level of remuneration is determined primarily by the social rather than the production and economic factors;
- the individual earnings of the worker are determined on the basis of how much the other workers in the company receive;

- the system is based on the principles of long-term and sometimes life-long work of workers.
- In the 1950s, the salaries in most Japanese companies were determined on the duration of the service in the company and the costs of living, whereby wages increased annually according to the reported inflation. Over the next few decades, a number of companies have begun to introduce a system related to the work performed, linking earnings to the necessary competencies directly related to the job. This system gradually took place according to the Japanese specifics. Instead of a flat rate for each qualification grade, pay levels had been taken into account, reflecting career development and staff rotation capabilities, with a seniority criterion being the basis for an appointment. This remuneration system took into account the employee's capabilities and has operated in various modifications in most Japanese companies. The following factors influenced this system of wage formation for a Japanese worker:
 - age, experience, education;
 - position occupied, profession;
 - results of work performed.

One of the peculiarities of the Japanese pay model is the dependence of remuneration on the so-called life changes in a person's life, which are usually such as:

- upon graduation, the young worker receives an initial legal minimum wage;
- after marriage, in accordance with corporate rules and traditions, the salary increases by 5-10%;
- after birth of a child, the state encourages employers to raise the employee's salary;
- an increase in salary is also foreseen when buying a home with a loan, with the time for its payment accompanied by an increase in the salary, etc.

Typically, Japanese workers' incomes include monthly wages and various bonuses. The monthly remuneration consists of a fixed and variable part. The permanent part of the salary is a fixed amount, the amount of which is annually reviewed in an administrative manner, with the participation of trade unions. In addition, each worker has the opportunity to periodically improve his or her level of qualification, as long as there is no violation of work discipline and other administrative penalties. Despite the annual in-house salary increase, the tariff

tables are reviewed almost every year as a result of negotiations between the company administration and the unions.

The monthly co-payments between the different companies are not the same and are divided into four main categories:

- remuneration for work (for professional skills, compliance with production discipline, results obtained, etc.);
- allowance for working conditions according to the main job (for performing heavy and dangerous work, for shift work, for temporary relocation to another place, etc.);
- level of liability allowance (in most companies it is of a fixed size and in others its size is gradually increasing);
- additional payments related to increasing the cost of living.

In contrast to the social wage applied in Japan, in the United States, France and other Western countries, in recent years, the individual approach to the calculation of wages has become widespread, based on an assessment of the individual worker's production achievements. With this remuneration method, even workers with the same qualifications and occupying the same positions, but with differences in abilities, experience, skills and also having different motives for work, can achieve different results in their work. These achieved different results can also be directly expressed in differences in the wages. This is usually solved by differentiating wages through existing grades and setting rates for each grade. Existing grades are minimum, medium and maximum. Their value varies both for each company and for the category of workers:

- for employees - from 10 to 20%;
- for specialist workers - from 15 to 35%;
- for employees - from 35 to 50%, and sometimes more - for leading specialists and managers.

Typically, a remuneration from the minimum to the average is given as an allowance for a seniority, and from the average to the maximum is given for achievements, ie. for production results for a certain period. This way of individually regulating wages has a wide practical application because of its stimulating nature.

The bonuses can be in the form of a one-time bonus, an additional payment to the basic salary or a prize. These payments are made at the discretion of the management of the company in its successful operation and are usually made in cash. The bonus is a supplement to the salary, thus stimulating the workers. There are two main types of bonuses - such as the Outstanding Performance Bonus or a

Fixed Allowance for the Basic Salary for Special Competencies Owned by Individual Workers. Lump sums may be:

- a payment for company executives (annual, semiannual, new year and other payments) related to the positive results of the company for the respective period and which most often represent loyalty bonuses to the company and its owners;

- bonuses for the execution of particularly important and complex works;
- personal bonuses for performing specific tasks;
- bonuses for innovations related to working conditions, lowering the cost of production, improving its quality and others.

It is not uncommon for companies to regularly pay any other fixed salary allowances, such as:

- for additional encouragement and retention of the most qualified and experienced workers (for long-term or qualification);
- for stimulation of the educational level of workers in cases where it is necessary to improve the quality of their work (for the development of qualifications, for re-qualifications, for scientific degrees, etc.);
- to promote healthy lifestyles (non-smokers, athletes, etc.)

In the United States in the 1930s, the system of collective redress for workers emerged, which later evolved into various modifications (Georgiev, 2012, p. 66). This system consists in the fact that the workers in the company receive a monthly premium, in the form of a part of the amount which is saved by the labor costs of the production. When the normative wage costs are being reduced, the funds saved can form the bonus fund. The smaller part of this money goes to increase the profit of the organization and the greater part goes to bonuses of the employees. A partial modification of this system was made later, whose aim was to determine the normative value-added factor of the finished product produced by the firm for each dollar of production costs. The savings under this system have been distributed equally between the employers.

In Russia, there are many companies that pay workers' salaries in dollars, each year the number of these companies decreases at the expense of the popularity of the European currency - the Euro. According to a number of studies, the average monthly salary in Moscow shows that for workers it has lowest rates, for the administrative staff it has higher rates, for the average managers' level - a higher one, and for the senior managers - up to \$ 7000. Both Russian and foreign companies in Russia use different payment methods, which are different in the central parts and in the regions. Assuming the average salary in the capital is 100%, in the Moscow region the average salary is 70% of that in Moscow, in St.

Petersburg - 74%, in the Volga region - 50%, and in Sakhalin - 79% (Khachaturian, 2007, p. 47).

In addition to the salary remuneration, there are other trends related to the payment of premiums. Most companies have adopted a system of bonus payments based on the performance throughout the year, with a premium of between 1 and 1.5 months' salary. The most common bonuses are paid at the end of the year based on the individual performance of each employee, not the performance of the company as a whole. There is a gradual increase in the number of non-monetary compensation such as:

- health insurance provided to employees;
- payment for mobile phones;
- provision of vehicles for senior employees;
- life and work insurance;
- payment for food;
- payment for the services used in the sports centers, etc.

Attempts have been recently made to retain and motivate senior employees, giving them the opportunity to participate directly in the share capital of the company. In general, it can be said that there are the following trends in the promotion of workers:

- more frequent use of variable pay systems and an increase in the proportion of the variable part of the total income of workers;
- increasing the scope of application of group forms of wages and increasing their share in the total income of workers;
- widespread dissemination of the knowledge and competence payment system;
- for inflation reporting, each firm adopts its own correction coefficient aimed at offsetting the corresponding losses of the worker.

Through a survey among 45 companies managers occupying different management levels in the Blagoevgrad region, we investigated their opinion about the remuneration, the income level, the systems for forming and changing of the salary and about the additional remuneration. The survey contained 30 questions of different types, five of which were directly related to payment.

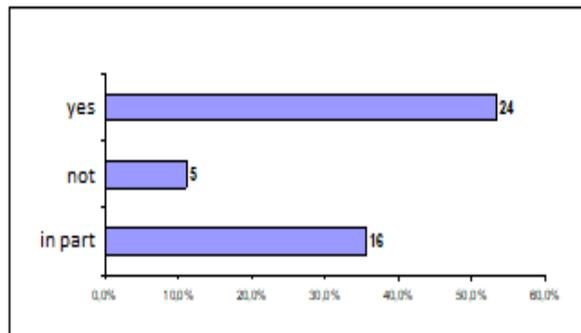
Question 1. Are you satisfied with the personal income you receive?

From the answer to this question one can understand how the interviewed managers evaluate the remuneration of their work, which is a difficult task because the work done by the manager is connected with meetings with different

people, in different places, it is not always noticeable by the employees, etc. n.
The answers are:

- more than half of the managers (53.3%) are satisfied with the income they receive;
- 35.6% are those who receive partial satisfaction;
- only 11.1% are dissatisfied with their payment.

Figure 1. Satisfaction with personal income

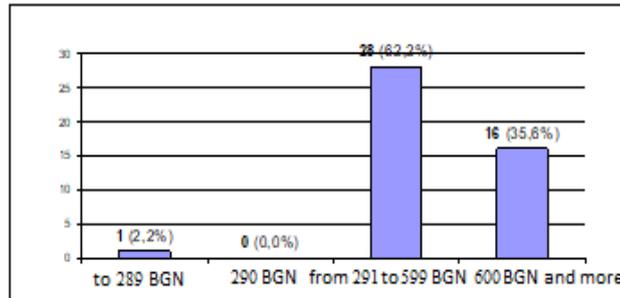


Question 2. *What is the average monthly remuneration of employees in your company?*

The answers to this question show that the average monthly remuneration of the employees in their companies is commensurate with the remuneration in the industry in Bulgaria:

- a large proportion (62.2%) receive average monthly salaries;
- 35.6% receive higher monthly salaries;
- only 2.2% receive a salary below the minimum.

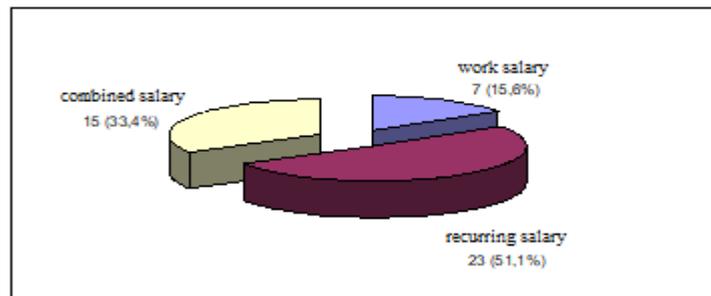
Figure 2. Average monthly remuneration of employees in the company



Question 3. *What is the dominant salary system that you apply in your company?*

The choice of remuneration system depends on the nature of the work, the required productivity and quality:

Figure 3. Salary system applied in the company

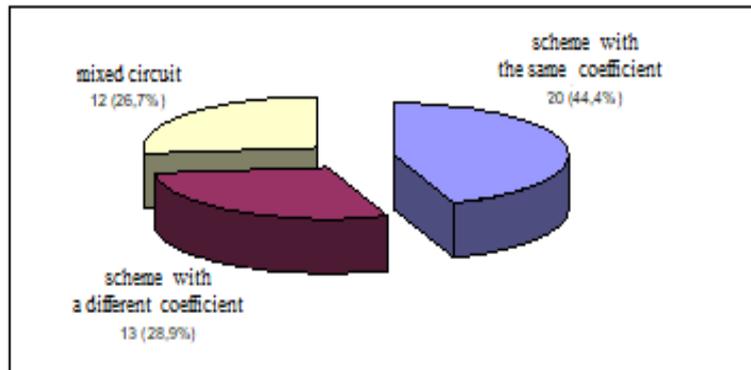


Question 4. *What is your preferred inflation-influenced remuneration scheme?*

Business executives can choose different ways to offset workers' incomes under the influence of existing inflation:

- most often the system of wages with the same coefficient is applied - 44,4%;
- 28,9% have chosen the system with different coefficient;
- the mixed scheme was mentioned by 26.7% of the managers surveyed.

Figure 4. Scheme for changing wages under the influence of inflation

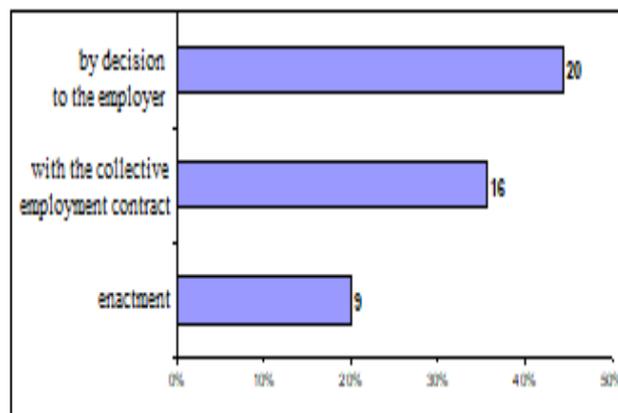


Question 5. *What is the predominant way of paying the regulated additional remuneration in the company?*

Additional remuneration in the company can be applied on the basis of various legal documents:

- 20.0% of the respondents use a normative act;
- 35.6% of the managers indicated that they use the solutions laid down in the collective agreement;
- most additional salaries (44.4%) were paid through company management decisions.

Figure 5. Payment of additional remuneration in the company



There are many problems related to the formation of labor remuneration. Significant differences in remuneration approaches exist, which are mainly influenced by the state of the labor market and the nature of the company.

Comparing the practices in different countries with regard to the evaluation and remuneration of labor, we find that the existing systems have a number of common characteristics, but also show significant differences, which are mainly related to the existing specific laws and state structures of the different countries, and the role of trade unions organizations in different branches.

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