4th International Symposium

INTERNATIONAL BUSINESS ADMINISTRATION

Karviná 2006
Section 3  Factors of Growth for Small and Medium-Sized Enterprises

BAŽANTOVÁ Libuše  Training and Education – E-Learning  347
BUREŠ Vladimír  Small and Medium Sized Enterprises as a Part of Knowledge Economy  352
DYDUCH Wojciech  Growth Factors of Small and Medium Sized Enterprises in Transition Economy  359
BRATNICKI Mariusz  GABRYŠ Bartłomiej J.  
AN EVALUATION OF PERFORMANCE RELATED WAGE SYSTEMS IN HUMAN RESOURCE MANAGEMENT: OPPORTUNITIES AND THREATS

Bünyamin BACAK*
Levent ŞAHIN**

Key Words:

I. Introduction

The global competitions growing up and spreading especially from the 1980's, existence of advanced technologies, dynamic shape of working relations and changing attributes of the labor force, these all force the employee to become more effective in terms of grabbing the advantage of competition. In this frame, alongside the activities occurring inside the global system recently, it can be analysed that companies referring to public and private sectors are adopting the human resources management processes at a geometric rate.

Drawing the qualified employee for the firm, holding them inside, increasing the motivation and therefore the company performance are all the most important factors related to wage management in terms of employee and company satisfaction. Firms have wage systems becoming flexible and varied in respect of assessments like their own structural and financial properties, the human resources policy maintained and the current wage level on the markets. Human resources departments of the firms tended to give up the priority-based wage systems and choose a more flexible wage model named performance-based wage system while they adjusting the wage systems.

In this study, what will be mentioned first is how human resources managements- that are becoming one of the most strategic fields in our day- perform their waging functions. Later, some details about lately performance related wage systems and their endlessly increasing practicing fields will be explained and the effects of these implementations on company managements will be viewed.

II. Compensation and wage management

Management of wages and other costs in firms is an important function of human resources management. Since to draw the worker into the firm, make him/her constant and motivate him/her to be more productive needs more seductive wages. Meantime this wage level must set a context for company not increasing the costs and being a problem for the company. In this sense we can easily say that wage management must be settled on most sensitive balances on behalf of employee and the company.

Wage concept has been considered in different scopes time to time and subjected to studies in various disciplines in order to provide certain approaches. Wage is the price of work in economics, election tool of worker in social politics but the opinion of employee and the price of body activities in labor law (Ataay, 2000: 253). Wage is the value in kind or cash in return of the work instead of workforce of the employee contributing his/her intellectual or physical effort (Benligiray, 2003: 1).

* Assist. Prof. Bünyamin BACAK - Çanakkale Onsekiz Mart University, Faculty of Economics and Administrative Sciences at Biga
** Research Assist. Levent ŞAHIN - Çanakkale Onsekiz Mart University, Faculty of Economics and Administrative Sciences at Biga
Wage is a complex structure in terms of context. Besides, it holds different aspects of importance on behalf of related persons or fields. The wage the employee takes in return of his contributes to the firm not only ensures their survives but also proves them status and prestige inside the company. Compensation and wage systems are so important for both employee and the company itself beside being a complex task in these aspects mentioned above (Flippo, 1984: 281).

Wage deals a great importance for not only workers and the company but also the unions and the community. Unions attach importance to the wages to be increased in favour of their members in collective bargainings. Furthermore, after the industrial relations achieving more dynamic structures, unions started to deal also with the concept of compensation according to knowledge, skill and competence or performance levels employees have more closely beside the equality and justice means (Parasiz, 1994: 54). To be considered in terms of social means, it can easily be noticed that wage has an important role on determining the life standards and social welfare. High levels of wage enables on one hand high taxations for financing more advanced educational institutions, hospitals and various public services; on the other hand contributes to employees’ purchase capacities and above all to social economy and public welfare in general (Bingöl, 2003: 315-316).

Wage plays not only an important role of enhancing the productivity and creativity inside the firm but also is an economical incentive to reinforce the ties between employees and the firm. Wage counts to be a reason for employee to start in the firm but also forms a reason to work constantly inside. When considered for managerial purposes, this so important wage concept reveals out some multi-dimensional intents (Sabuncuoğlu, 2000: 210; Bayraktaroğlu, 2003: 159-160; Benligiray, 2003: 12-16):

1. Drawing the qualified employees of labour market into the company,
2. Preserving the existing workers inside the company,
3. To set the contributes of the employees at highest level,
4. To meet the needs of employees like desired security and self-esteem,
5. To motivate the employee for attaining the desired performance level,
6. To reward the high-level performance and motivating,
7. To take in control of the costs by formulating a compensation structure ruling the equity principles for the workers in terms of merit,
8. To avoid the loss of production and efficiency by preventing the negative actions
9. To increase the rate of living and welfare effective in community,
10. To support the company culture and organizational change,
11. To minimize the complaints about the wages,
12. Working in coordination with unions,
13. To comply with the legal arrangements about the wage management,
14. To decrease the speed of personnel turnover and strengthen the tie.

III. Performance related wage systems

Wage systems matters much for effecting the way of payments, wage levels and labor productivity. On this account, every firm must execute a wage system mostly applicable for its structure. In a sense, wage systems happen to be a set comprising of the rules that determines the way and amount of the wages payed to the deserved employee. Emerging of various wage systems resulted from the different computement and payment ways. The wage systems that altered through the years among various criterions ( wage systems dependent to time basis, piece-rate wages, piecework wages, etc.) tended to adopt more performance related wage systems having a more flexible framework recently.

Managers happened to be researching the influences of rewards and promotions (incentives) from the beginning of the industrial revolution if they would increase the
efficiency and capacity of the employees. Motivation and reward systems play an important role in the companies’ strategic management activities for they define the expectations of the firm from their employees and shape the attitudes of them (Doğan, 1998: 63). Alongside the growing importance of strategic human resources management in our day, the performance related wage system carried out started to stand out in respect to reward systems. When considered in general utmost performance related wage system is the one which is conducted through a tie between wage and performance (Ünal, 1998: 3).

When using that performance related wage system which is generally a part of the performance management activities payed bonus and wage levels are determined through an evaluation process of the employee performance which takes place in regard of the objects previously set. Arranging the wages according to the performances which are connected with the goals previously set for the business institutes the logic of performance-based wage system. The criteria related to the performance related wage system can be set as the following (www.maliye.gov.tr):

1. Must be objective,
2. Must be measurable and measure of what does matter,
3. Must be run alongside an evaluating system that can assess the performance properly,
4. Must be organized through a process which enables the application results to be applied as a feedback not only for the method but also the workers,
5. Must be easily comprehensible,
6. Must concern the one measurable and must quit the incidents that are out of control of the workers.

All of the performance related wage systems generally have the same basic steps which are (www.unison.org.uk):

1. The given targets must be set,
2. Evaluation of the results and;
3. Compensation through the results and proved success and choosing the status to raise the finance for payments.

If we consider to classify these performance related wage systems amongst themselves, it follows as;

4. Wage Systems based on Individual Performance,
5. Wage Systems based on Group Performance,

Individual performance is the qualitative and the quantitative definition of how far an individual reached the standards and goals determined for him/her by the aims that an organisation tries to achieve. Group performance is the level of success that individuals obtain together. Organisational performance defines the overall performance of a firm (Beniligiray, 2001: 17).

Individual performance can be taken as a basis for wage determination for it is a strong tool in motivation. But it can also prove to be unuseful for causing bad results when managers ended up being incapable of determining the contributions of the employees as in respect to the obtained results. In addition, if the employees can not comprehend perfectly the essential tie between their wages and performances, the motivational influence of that system could be lost. Group and Firm performances can be also effective when the labor force could be directed straightly into a collaboration running to realize the common objectives. The effect of performance related wage system rises when the criterion related to individual and group performance are conducted effectively (Gomez-Mejia and Welbourne, 1996: 292).

A relationship between individual performance and wage is formed in the wage systems based on individual performance and wage raises are determined considering the
individual performances proved by the employees. The point which matters in this wage system is determining the complete or some part of the wage increase rate based on performance according to the performance points (Bilgin, 2002: 5).

Wage systems based on individual performance own various other wage systems that are dependent to the main line but comprising different features. Part Accord in which the employees are guaranteed for their basic hourly rates and a unit of raise in production provides a unit of raise in wages; Time Accord which makes a profit when an economization is managed using the standardized time factor designated beforehand (Benligiray, 2003: 40-41), Premium systems that are processing through some different systematics- Halsey, Rowan, Bedeaux, Emerson, Taylor, Gantt's wage systems (Yağcı, 2002: 178; Bursal ve Erkan, 1999: 153; Altuğ, 2001:174; Zaim, 1997: 273); Rationed Wage System in which Premium payments are delivered depending to the rations previously set except from the wage and salary being saved for the employee (Özgen ve diğerleri, 2002: 273) Economic Reward Wage System which is known also as Bonus system and paid to the managers beside their periodic wages in result of the performance they showed in a time period of 3, 6 and 12 months (Beach, 1985: 486-488), merit-based wage system which suggests an increasing in wages without damaging the structure of it inside his/her wage class and in order to reward the high quality performance of the employee; and especially the commission-based wage system which is applied to the employees working in sales department and through which a percent of the sales can be gained as a payment afterwards. These are the mostly used and well-known individual-based wage systems.

According to the developments in conditions of employment, firms could prefer their employees to display group performance instead of individual performance in the purpose of overcoming the given issues. Firm managers choose to implement the group-based wage-payment plan in order to orient the employees for teamwork. In group-based wage payment plan the entire team is rewarded depending to a ratio of the results the group has achieved. As it is seen in individual programs, the rewards could be passed on to the cash or wages in team programmes too (Gomes and the others, 1998: 340-342). The reasons of prefering the wage systems based on group performance can be displayed as the following: The business could require a teamwork due to the class and structure of business, workflow and the structure of the firm; assessment of individual contributions to the production, productivity and profitability by the employees could be difficult (Benligiray, 2003: 46-48).

Other than the wage systems based on individual and group performances, in many firms incentive schemas are being applied enclosing the entire firm. These incentive schemas generally make up the wage systems based on the firm performance. Among these notable wage systems based on firm performance there are some other distinctive systems such as; Scanlon System which suggests the committees formed by representatitives of each service in the company pay the surplus value resulted from cost reduction studies to all employees on the register (Dilworth, 1992: 287; Beach, 1985: 508-509); Proposal-Reward Wage System in which a rewarding occurs after the proposals of employees about the business implemented and proved to be successful (Selamoğlu, 2001: 241); Profit Sharing System which enables the employees to have their share from the profit of the company according to some ratio previously confirmed (Beach 1985: 509); Gainsharing System which highlights the principle of which the production and costs are under control of the employees and they deserve to get premium payments when they increase productivity and quality and decrease the costs (Milkovich and the others, 1997: 510); Lincoln's Incentive Payment Plan which occurs as distributing the annual bonus fund to the persons employed as profit-oriented (Byars ve Rue, 2000: 356).

In order to overcome the issues emerging at the time of performance based wage implementations, employers must participate to determine the business objectives, job
descriptions that are accepted reciprocally must be made, performance criterion must be clear, objective and comprehensible, an objection mechanism in which the representatives of employees take place also must be constructed. Another critical point that emerges at the time of implementation of the same wage system is opposing of the labor unions. Because the wage is being individualized and wage templates determined mutually by labor-employer unions are abandoned at the end of performance based wage plans. Actually, determining fairly the differences between efficient and inefficient employees and making arrangements on behalf of efficient employees don't conflict with the primary objectives of the unions. What must be dwelled upon here is to inform the unions about the performance related wage systems and to receive their supports on that (Ünal, 1999: 14-15).

IV. The positive aspects of performance related wage systems: opportunities

Being appreciated is quite a vital motivation tool for the workers. Rewarding the individuals who believe that they work more than the others with incentive wage increases the motivation. Depending on studies taken on this subject, it is determined that firms which apply performance-based waging systems, gain 30% higher performance than others (Schuler, 1995: 426).

The opportunities which the performance related wage systems will create enumerated as the following (Beer and the others, 1985: 437; Ünal, 1999: 2; www.isguc.org):

1. Under opposite circumstances payment according to performance is motivating the employees to provide the desired behaviour,
2. It stands for originating employees index-linked to success and make them stay within the company,
3. It is to encourage employees that have low-rated performance to gain higher performance while keeping the high-rated performance of the others,
4. Wage systems provide notification criteria. Administration composes certain performance criterias and thereby employees start to fulfill these criterias to gain higher wages,
5. It pulls up the work satisfaction by providing the equity among the workers,
6. Wage Systems conduce a performance-oriented culture in a company by indicating that rewarding is linked to performance,
7. It is a fair process for it evaluates the individuals by their contributions,
8. Wage Systems is to define distinct goals. A business analysis must be done to define goals thereby performance criterias are also defined,
9. Complaints and absenteeism draw less than before when the satisfaction of work goes higher,
10. Instead of increasing the wages of all employees, offering an individual-oriented bonus depending on the employee’s performance forces up other employees to join the competition process,
11. Wage systems support the improvement of team-working. Depending on the performance of the team, specified reward is being distributed to team members. Consequently it increases the team-work and efficiency of the teams,
12. Wage systems are appropriate for modern administration technics, like total quality, to apply performance related wage system as a rewarding method and performance related wage is acceptable for these kind of technics.

V. The negative aspects of performance related wage systems: threats

In literature determining factor for the negative issues are caused by mistakes, done in implementation, they are not related with the system itself. Success of the system depends on correcting those mistakes. First of all it is quite difficult to evaluate performance in a healthy
way and primary mistakes are based on the evaluating faults done by evaluators and insufficient rating methods. Besides lack of confidence about the equity and justice in determining the employees' performance, will effect the success of the system (Ünal 1999: 6)

The negative aspects of the performance related wage systems can be lined like the following (Ünal 2000: 16, 1999: 9-10; Öztürk, 2000: 75-76; Benligiray, 2001: 19-21):

1. There are difficulties to determine the effects of performance related wage systems on executive performance. It is not simple to systematise whether the performance related wage systems are successful or not to form a performance culture,

2. It is a fundamental issue to set a survey and evaluate system to determine the performance ranking in an accurate and objective way. It costs fairly time and expense. Besides it requires an extra response to execute the system in an express way,

3. Primary task is to determine the rewards in a fair way, meeting the efforts of the employees. Key point is providing the equality of individuals. In general, business administrations strive to pay the minimum amount. However, if employees don’t perceive that the wages meet their efforts, their satisfaction about the work will decrease,

4. Naturally a budget exists for the wages and it is necessary not to exceed those limits. Business administration units have monetary or point distribution oriented quotas to comply those limits. Consequently this situation will estrange evaluator units from acting in an objective manner,

5. It is a mistake to assume that each employee will be satisfied with same award and will accept their administrators value judgements. Each individual has different kinds of needs and expectations, therefore it is natural for them to prefer different kind of rewards,

6. In a wage system based on rewarding each individual with different types of rewards, it is possible to cause discrimination, hence especially women, older employees, part-time workers and disabled workers carry the risk,

7. Even at the periods that employees should concentrate on outside, competition inside the business takes place and that causes employees to neglect external customers and competitors,

8. Performance related wage systems mostly cover white-collar employees. It is rarely being applied to blue-collar employees. Consequently, white and blue collar employees that are uncomfortable about the wages seize on a notion as “we and them”. Therefore discrimination occurs in business.

Another important subject is the point of view that performance related wage systems can cause demotivation. According to the modern theories that claim Taylor’s traditional motivation theory doesn’t function anymore, performance related wage systems can decrease motivation. These theories also assert that observing and controlling employees’ performances closely, causes negative feelings and motivation is also decreased by this process. According to the studies done about theories that causes employees to lose their creativeness and decision ability; performance is being increased when performance related wage system is being applied on employees with low quality and competence, besides when it comes to employees with high quality and competence performance is being decreased (Incir, 2000: 5).

VI. Conclusion

The performance related wage systems which are systematized as by contacting the wage with the performance the employees exhibited for enhancing their motivations and their efficiency is one of the most current issues of modern human resources management of our
day. The main reason that the wage systems based on performance becomes worldwide and increasingly critical is, beside the globalisation process, the new conditions of competition brewing inside the national and international markets and getting intense. Performance related wage implementations which increases the quality and the efficiency in organizations deal a great importance in taking the competitive advantage in those new competition contexts. These so critical performance related wage systems offer some advantages in general for the employers and the firms but there is also some evidence of drawbacks resulting from the mistakes that are emerged in the implementation process of the system.

Performance related wage systems return very favorable results for the employers by rewarding the successful ones, generating sense of appreciation and increasing the quality of individual decisions. However, it is being preferred by the firm managements in account of increasing the competitive power and productivity of the firm, contributing the development of teamwork and ensuring a more flexible structure for the employers in wage theme.

Although they have many advantages for the companies and employees, performance related wage systems also come along with many disadvantages. Especially the issues about implementations on performance valuations, limited wage-salary budgets, possible cuttings of the system by some discriminations among the employees can lead into some problems and arguments.

Resume
One of the most influenced concepts by the quick changing process of the world, "Human Resources Management" chooses an elastic system mostly while carrying out one of its most important functions. In this frame, human resources departments are trying to give up the wage systems based on priority and get their companies adopted the performance related wage systems. Wage models based on performance comprise lots of opportunities for both workers and companies but they also involve menaces resulting from disorders and mistakes arising in the middle of system Practicings.

References


