

LABOR FLEXICURITY IN THE WAGE POLICY

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Rezumat

In recent years, economists and specialists in human resources have shown a growing interest for more efficient wage policy, one that proves to be judiciously developed and in accordance with the specific activity of each entity. Therefore, an effective wage policy should be part of the general policy of the firm and should answer, on the one hand to the general requirements of increasing the efficiency of the activity and on the other hand to provide stimulation and motivation for the staff so to achieve not only individual performance but bring along added value to the overall business performance.

This article is part of a broader research conducted by authors in the field of wages and labor market flexicurity. In elaborating this article we have appealed to an exhaustive analysis of EU law regarding remuneration of labor, in general, and labor flexicurity, in particular, the opinions of experts in the field were considered and their opinions, or some legal texts, the most significant ones, were presented in this work in a summary form. A critical documentary work on Community regulations and Romanian legislation, foreign specialized literature and the one published in our country was performed while conducting the research.

The theoretical approach of flexicurity is different from state to state within the European Union in relation to the development and diversification of the labor market of each state. In some countries the efforts can focus on the firms for retraining, requalification, while in others the focus should be put on training during periods of inactivity or unemployment.

Cuvinte cheie: wage policy, equity, human resources, flexibility, security

Clasificare JEL : M41, M54

1. Introduction

In the most important European organizations of continental importance, in particular the Council of Europe and European Union, labor legal standards are elaborated, applicable at international level. Council of Europe adopted a number of European conventions concerning labor legislation, especially social security legislation. These European Conventions are transposed in each country's legislation by the classical procedure of ratification, as well as the conventions of the International Labor Organization (ILO). European Union has elaborated directives and regulations which are differently transposed into member states' law, such as:

- Directives must be implemented in international law through legislative harmonization;

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- Regulations should be applied directly in legislation prevailing over the national legislation.

In 1950 the *European Convention on Human Rights and Fundamental Freedoms* was adopted, and was implemented starting with the 3rd of September 1953. After examining and synthesizing this Convention as a whole, it can be said that its stipulations are found in the Romanian Constitution and labor legislation. In conclusion, labor legislation in Romania is compatible with the European Convention on Human Rights and Fundamental Freedoms.

By Law 74/1999, Romania ratified the revised European Social Charta, adopted in Strasbourg on 3 May 1996. Romania signed the Charta on 14 May 1997, being at that time the tenth Member State and the first in Central and Eastern Europe who has committed to ratify this treaty that is considered a reference document on the social rights of the XXIst century. European Social Charta is, according to its promoters, a correspondent of the European Convention on Human Rights in the social field.

International Labor Organization, since its establishment in 1919 by the Treaty of Versailles, has the main task to improve working and living conditions. ILO standards are a reflection of the Member States' will to ensure, by international regulations, the basic human right to work and social security, as well as all its related rights: freedom of association, prohibition of forced labor, equality of opportunity and treatment. Health and safety at work is the central preoccupation of the International Labor Organization.

Framework Convention 102/1952 on social security set up, with the flexibility required by the diversity existent in the Member States, the minimum benefit levels in nine areas deemed essential in social security: medical care, sickness benefits, unemployment benefits, old age aid, benefits for work accidents and occupational diseases, maternity benefits, families' benefits, invalidity and survivors' benefits.

Any state interested in ratifying the *Convention on social security* must meet the minimum standards for at least three of the areas mentioned, of which at least one should refer to: unemployment benefits, benefits for work accidents and occupational diseases, old age aid, invalidity or survivors' benefits, and later on the state can commit to compliance with the other branches of social security.

Community rules on the social dimension of EU labor market as a whole are concerned with:

- free movement of people, goods, services and capital;
- increasing the welfare of EU citizens and especially those who work within it;
- conditions of employment: job security, wages and working hours, labor relations, unemployment and employment, employees' protection (in case of insolvency, protection of young people at work), etc.

2. Wage policy: necessity, needs

Wage policy is a practical instrument for adjusting the supply and demand of labor, for uniting the employment of personnel with its effective use. Salary should act as a lever to stimulate the economic growth process and increase the standard of living of the personnel.

On labor market, certain relations are established between labor demand and supply carriers that occur under existing regulations in this area and the terms of employment and the size of wage are stipulated based on them, clauses written in the contract of employment.

In conclusion, wage policy must meet the following requirements:

- both wage policy and wages' flexibility act as instruments of allocation and employment of workforce in each sector of activity;
- ensuring a fair correlation between output growth and wage bill;
- creating conditions for the development of wage's incentive side which permits the increase of competitiveness and performance of staff.

Although payroll administration is often regarded as a specialized function of the economic entity, some researchers (Hilgert and other 1986) and (Milkovick and Boudreau, 1991) see it as a core area of human resources management and the development of wage policy is considered a complex activity that requires taking in consideration all the essential sides of a salary, its basic functions, its correlations with different economic and social variables but also the implications of labor costs on the performance of economic entities.

Every entity's manager sets his own wage policy, taking into account the prevailing wage levels used by competing entities and seeking to ensure comparable wage levels within its entity.

Wage policy is influenced by many internal and external factors (*Table no.1*).

Table no.1

<i>Internal Factors</i>	<i>External Factors</i>
Level of labor costs and their share in the cost of production	The level of competitiveness specific for the organization
The adaptability of the production process at the payment methods and their incentive character	Profit level and its influence on the entity's financial position
	Organization's development prospects and the increase of its profitability and turnover

Source: Own processing

Staff salaries are influenced by many factors and we regard as most important the next ones:

- general economic climate;
- planned rate of return on investment in comparison with that of other entities in the same industry;
- influence of government decisions (legislation, taxation);
- effects of collective labor agreements and negotiations on their signing up etc.

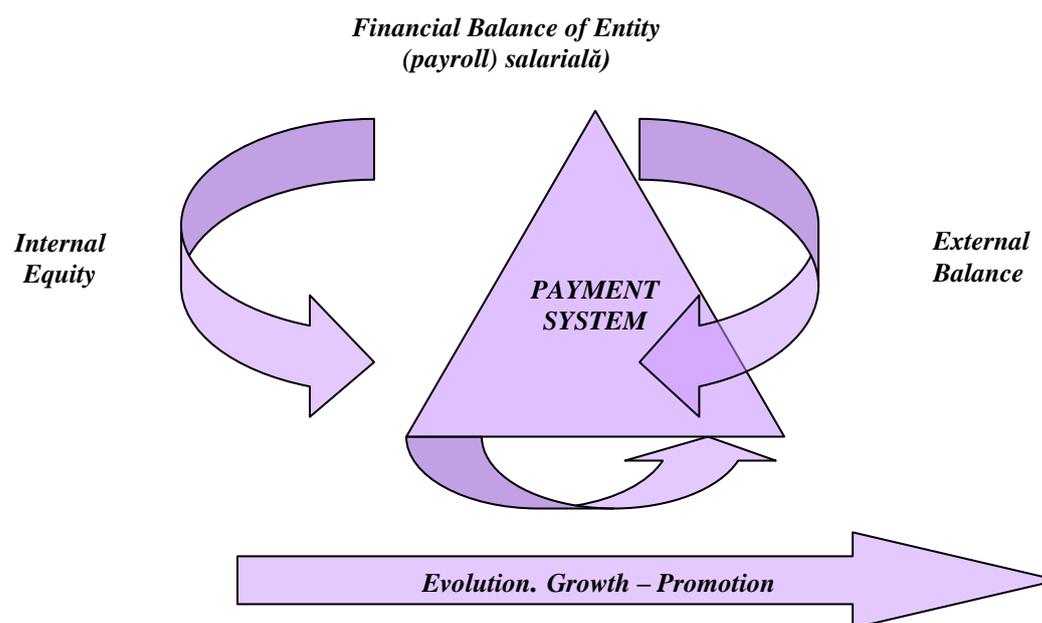
The authors' opinion is that a pay system is effective if it respects the following requirements:

- is well designed as a whole;
- is understood by employees at all levels;
- is implemented in a fair and equitable way by the entity' management;
- is flexible enough to answer the staff's requests.

Strategy and policy adopted by the entity regarding wages should ensure *a dynamic balance between three basic components*, represented graphically in Figure no. 1:

1. *financial stability of the company*, which determines the total amount of payroll and its possibilities of development;
2. *external balance* in relation to labor market, which influences the quality of the employed staff and the entity's ability to recruit and retain qualified personnel;
3. *internal equity*, which emits a sense of justice among different employees and everyone's concern to improve performance.

Wage policies must not neglect basic needs and goals of employees, wage being a means of satisfying not only the physical and biological needs of employees, but also a means of satisfying their social and personal ones. Many experts in the field (De Cenzo and Robbins, 1988) suggest that organizations have goals in higher productivity and profitability, but essential for achieving them is to know how to gain the trust and commitment of the entity's employees, to motivate them to reach performance levels, thus ensuring that they will continue to fulfill their duties to the organization. All these issues are related to human resources management and aimed at reducing disparities between the needs of the organization and the needs of employees, therefore the entity supports and motivates their needs thus to boost their performance.



Source: Own processing

Figure no.1 – Basic components adopted by the entity in the domain of wages

A very important requirement that wage policy must take into account is ensuring the necessary framework so that a part of the newly created or added return to be given to employees, since exaggerating in a certain direction can lead to undesirable effects for both the entity and employees.

At the macroeconomic level, wage policy is conceived as an integral part of overall economic strategy, next to the employment policy, monetary policy and fiscal policy and, at the microeconomic level, wage policy is an intrinsic part of the organization, involving both an internal and external side (Manolescu and other, 2007), since it refers to:

- shaping and supporting through wage the labor relations within the entity, i.e. the ratio between the work done and payment methods (*internal equity*);

- a certain alignment, achieved through market mechanisms, between the level and structure of salaries paid by the entity and those of other entities, at least for basic jobs, professions or occupations (*external equity*).

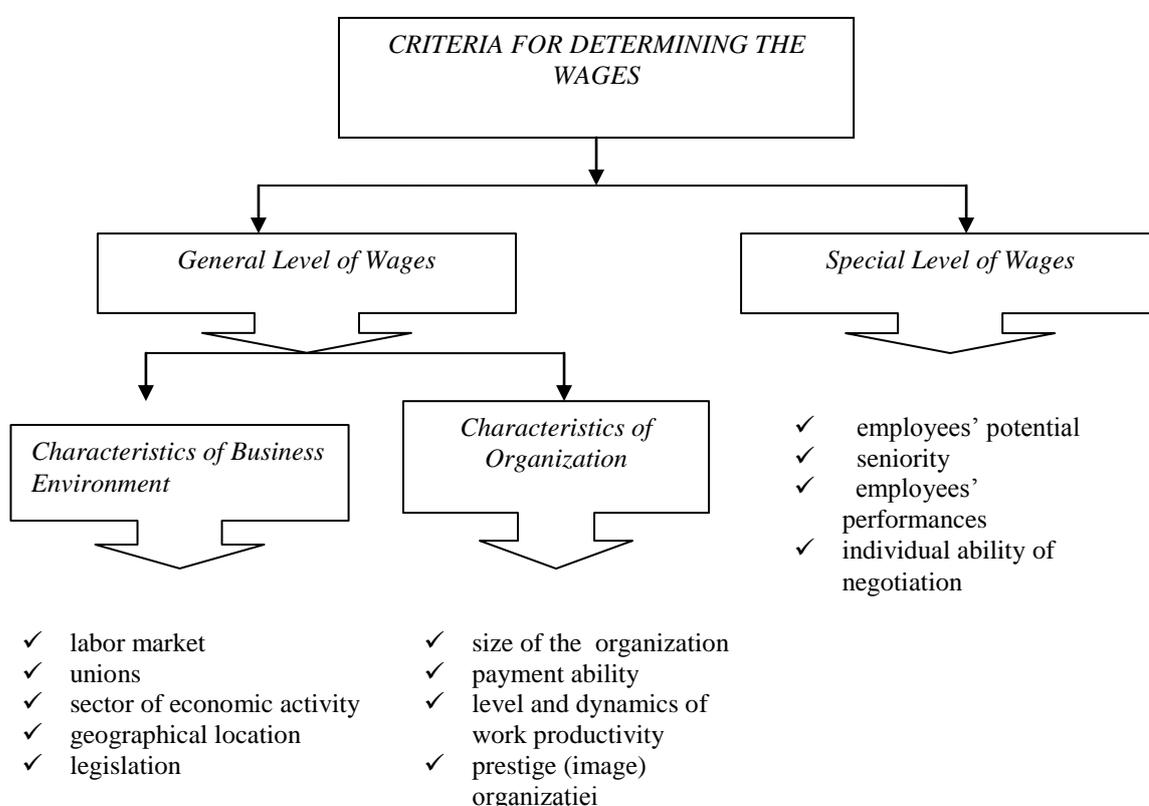
In order to establish an appropriate, realistic and efficient wage policy, it is necessary to know the experience of various countries with modern market economy and to apply some objectives and means specific for each country's economy.

Entities aim, by the wage policy adopted, at the development of some payment systems focused on performance at workplace and enhancement of quality and competitiveness, on the one hand, and creation of strong linkages between work results and its remuneration, on the other hand.

In our country, compensation systems did not change significantly from one period to another because Romanian entities have not established an employees' pay policy of their own but we can say that a positive evolution in the mentality regarding wages can be observed in most entities in Romania. There is also a development in employees' mentality; internal pay equity in enterprises is not necessarily associated with egalitarianism because salary increases are awarded based on performance, on the individual negotiation ability, seniority, and professional qualification.

An effective wage policy and an appropriate remuneration system must allow the social partners to reach an agreement to facilitate their incentives to work. The wage system adopted must be fair and equitable, and employees must perceive this fact. Employers can develop and diversify the forms of remuneration applied, in accordance with the specific activity of the economic entity, with the demands of workers and trade unions to which they are joined.

The main criteria for remuneration, both at general and special level, are shown in Figure no. 2.



Source: Own processing

Figure no.2 – Wage Determination Criteria

Through the remuneration policy, a variety of objectives are followed by the economic entity, of which we consider the most important the following ones:

- attracting an adequate number of employees;
- retention of competitive employee and gaining their loyalty;
- Rewarding the employees based on their effort, loyalty, experience and performances.

Flexibility of firm's wage policy must be understood:

- as a way to transfer the consequences of cyclical evolution of turnover and cost of living in different periods upon the salaries granted;
- as a factor contributing to the shift in the future, from a civilization of salary to a civilization of income.

3. Role of work flexibility and safety in wage policy

Social dialogue plays an important role in the search for collective solutions to enable employees but unemployed persons as well to contribute to the creation of an economy permanently changing. Permanent goal of social dialogue is to achieve social peace within any economic entity

Social dialogue can manifest itself as:

- bipartite – relationship between unions and employers;
- tripartite – institutionalized relationship between unions - employers - government.

In Romania, the involvement of the social partners at the macroeconomic level is achieved by:

- prior consultation of social partners' representatives by the Government when projects of laws on labor relations are initiated;
- creation of special organisms with representatives of employees and of employers in the form of advisory committees.

In June 2007, the European Commission issued a Communication on Flexicurity, which promotes the concept and common principles to help the Member States of the reform process. The Communication "Towards Common Principles of Flexicurity: more jobs and better jobs through flexibility and security" of the European Commission in Brussels to the Council, the European Parliament, the Economic and Social Committee and the Committee of Regions presented on 27 June 2007, has introduced the concept of flexicurity.

In Romania, echoes of this communication have not proven to level up with the importance of this concept, the reactions of specialists and social partners have demonstrated once again that social dialogue and civil society as a whole in Romania is far away from the European agenda and any conceptual ideas manifested in the European Community.

Flexicurity, as a concept, has a complex content and is primarily aimed at the following objectives:

- increase employment by capitalizing on a higher plane the material resources available to each member country of the Union; (Jurcă and Soponaru, 2007)
- development and implementation of effective measures firmly against unemployment;
- improve the training, education and training of employees;
- ensuring the conduct in appropriate terms of labor mobility process;
- development and implementation of procedures with consistently mutual recognition of diplomas, certificates and other evidence of professional qualifications;
- promoting equality and social inclusion;
- strengthening social peace;
- modernization of the European tracking system of supply and demand in the labor market by developing a unified framework in this area;
- improving the employment rate of workers in the elderly;
- ensuring safety at work;
- continuous training and qualification of employees;
- integration of disabled persons into the labor market;
- eliminate the occupational segregation of individuals;
- eliminate existing inequalities of remuneration, etc.

Related to labor market, the European Council decided to create National Partnerships for Labor Market Reform within each Member State, meant to ensure a balance between supply and demand for labor which has a dual role:

- contributes to economic development of each country;
- insert inactive persons on the labor market.

Legal entities and particularly small and middle enterprises must adapt their workforce according to changes in economic conditions and market requirements. Typically, small and middle enterprises adapt more easily to market requirements, consumer preferences and thus the workforce employed by them continuously adapt to economic conditions and should be empowered to better meet the enterprise's needs so to make it become more productive and adaptable, ensuring therefore the continuity of its business.

Currently the focus is on the flexicurity strategy which implies a combination, on the one hand, between a flexible labor market characterized by relatively low social protection in case of dismissal, accompanied by unemployment benefits in order to reduce negative impacts, and on the other hand, a policy of productive training, of professional retraining so to support these unemployed people.

EU Member States should agree on certain principles considered benchmarks in the field of flexicurity, since there are currently five models of flexicurity, covering as many European geographical areas, namely:

- Nordic Model - Denmark, Finland, Sweden, the Netherlands;

- Anglo-Saxon Model - UK, Ireland;
- Continental Model - Austria, Belgium, France, Germany, Luxembourg;
- Mediterranean Model - Cyprus, Greece, Italy, Malta, Portugal, Spain;
- Central and East European Model - Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Hungary.

Nordic countries are characterized by a high level of social protection and a strong fiscal intervention in the labor market. Scandinavian countries have a reputation of using a learning model focused on the various forms of work and professions and social partners are granted autonomy to mediate labor market with the educational process.

Anglo-Saxon countries have developed welfare systems aimed strictly towards persons with disabilities, elderly or presenting certain vulnerabilities. These countries are recognized for the free relations between the social partners on labor market which is not as strictly regulated as in the other models.

Continental countries with strong unions rely mostly on unemployment benefits and pensions and have a very well thought out system of collective negotiation.

Mediterranean countries have developed social systems that provide early retirement and benefits for employees (13 or 14 annual salaries, numerous legal holidays, awards and so on). Countries that are part of this model are characterized by authoritarian employers and politicized (unions respond to the political factor) and divided unions, in the sense that social dialogue between different unions is low, sometimes almost nonexistent, thus the main purpose of these entities, namely the representation of union members and watchfulness of their rights and collective interests, is completely forgotten.

Central and Eastern European countries, after living the "socialist camp" experience and the disappearance of the former Soviet Union, went through a period of transition to market economy being affected to a lesser or greater degree by inflation, unemployment, financial crisis and had real difficulties in the actual construction of a viable social model after communism, the "golden dream", collapsed.

4. Conclusions

The European Union intends to develop wage policies that address simultaneously the flexibility of labor markets and labor relations, the security – safety of employment and social security. EU concerns have intensified in the legal and institutional modernization of social policies, offering financial support to member states through the European Investment Bank and the European Social Fund.

Approaching flexicurity differs from state to state within the European Union in relation to the development and diversification of the labor market in each state. In some countries may focus efforts should focus on the companies for retraining and professional training, while other states' focus should be on professional training during the period of inactivity or unemployment.

In establishing an effective wage policy, managers are obliged to use wage flexibility as a necessary principle. Pay systems can not be designed in an ideal world; so many companies allocate financial and material resources, as well as human, to design an effective payroll system. On one hand, the employees, through their representatives, the trade unions they joined, seek to impose incentive wage rights and better working conditions and employers, on the other hand, try to attract the most highly qualified staff.

For the owner of capital, the firm, salary rights granted to employees represent the main expense recorded in financial books, thus the entity seeks to minimize it to maintain its stability and performance but also competitiveness. For the owner of workforce, the employee, salary is the main source of income, a necessary means of subsistence; therefore he aims to maximize it, which will allow him decent living conditions and continuous professional training.

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