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## РОЗДІЛ V. ТРУДОВЕ ПРАВО; ПРАВО СОЦІАЛЬНОГО ЗАБЕЗПЕЧЕННЯ

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### EMPLOYEES' PERFORMANCE-BASED REMUNERATION (KOREAN AND CHINESE PRACTICES)

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**Lutsenko Olena. Employees' performance-based remuneration (Korean and Chinese practices).**

In world practice, tariff-free and flexible remuneration systems are used. Remuneration systems based on the results of employee performance evaluation are becoming especially relevant. The author has believed that such an experience would be useful for Ukraine, as there is an unfair distribution of the salary fund at domestic enterprises.

The author has argued that the basis of remuneration should be based on the labour results of employees, their achievements and high qualifications and professionalism. It has long been necessary to move away from "equalization" in remuneration, because everyone performs the same duties differently, and therefore remuneration should be different. That is why I turned to the experience of Japan and China, because it is in these countries that such an approach has always been used, and therefore their practice can be useful for Ukraine.

In Japan and China remuneration has been based on the results of employee performance appraisals for a long time. These countries have developed special methods of calculating wages, which take into account many indicators.

Raising flexibility of compensation system is emerging as a big social issue.

Korea is facing rapidly aging population and deteriorating corporate competitiveness. Companies in Korea attempted to improve the pay structure by increasing the performance-based factors within the existing pay structure, the best example being the "annual salary system." For individual companies,

converting the current automatic pay raise scheme into a performance-based scheme will help ease the rigidity of the current pay structure. The prerequisite is that fairness must be ensured when evaluating performance. Responsibilities should also be allocated appropriately to allow equal opportunities for all individuals to make the best use of their skills and talents and adequate investment should be made to develop necessary human resources. Improvement in the overall work system should precede the move toward broader implementation of the performance-based pay structure.

Pay for performance programs in China are compensation plans that pay employees on the basis of some performance measure. This performance measures might include such things as individual productivity, team or work group productivity, department productivity, or the overall organization's profits for a given period. Performance measure and management is essential for implementing performance-based compensation system effectively and efficiently.

**Key words:** remuneration, wages, remuneration systems, wage structure, employee evaluation, labour efficiency

**Луценко О. Оплата праці за результатами трудової діяльності працівника (практика Кореї та Китаю).**

У світовій практиці використовуються безтарифні та гнучкі системи оплати праці. Особливої актуальності набувають системи оплати праці за результатами оцінки діяльності працівників. Автор вважає, що такий досвід буде корисним для України, оскільки на вітчизняних підприємствах

відбувається несправедливий розподіл фонду заробітної плати.

Автор стверджує, що в основі оплати праці повинні бути результати роботи працівників, їх досягнення та висока кваліфікація та професіоналізм. Вже давно слід відходити від «зрівнялівки» в оплаті праці, бо кожен виконує одні й ті ж обов'язки по-різному, а тому й оплата праці має різнитися. Саме тому я звернулася до досвіду Японії та Китаю, бо саме в цих державах завжди застосовувався такий підхід, а тому їх практика може бути корисною для України.

У Японії та Китаї оплата праці тривалий час базується на результатах оцінки роботи співробітників. У цих країнах розроблені спеціальні методики розрахунку заробітної плати, які враховують багато показників.

Наразі підвищення гнучкості системи компенсацій постає як велика соціальна проблема.

Корея стикається зі стрімким старінням населення та погіршенням конкурентоспроможності компаній. Компанії в Кореї намагалися покращити структуру оплати праці шляхом збільшення факторів, що ґрунтуються на результатах роботи в рамках існуючої структури оплати праці, найкращим прикладом якої є «річна система заробітної плати». Для окремих компаній перетворення поточної автоматичної схеми підвищення заробітної плати в підхід, що ґрунтується на результатах, допомагає полегшити жорсткість поточної структури оплати праці. Передумовою є забезпечення справедливості під час оцінки ефективності. Обов'язки також мають бути розподілені належним чином, щоб забезпечити рівні можливості для всіх осіб, щоб якнайкраще використовувати свої навички та таланти, і необхідно інвестувати відповідні кошти для розвитку необхідних людських ресурсів. Покращення загальної системи роботи повинно передувати переходу до ширшого впровадження структури оплати праці за результатами роботи.

Програми оплати праці за ефективністю праці в Китаї — це компенсаційні плани, які виплачують працівникам на основі певного показника ефективності. Ці показники ефективності можуть включати: індивідуальну продуктивність, продуктивність команди або робочої групи, продуктивність відділу або загальний прибуток організації за певний період. Вимірювання ефективності та управління є суттєвими для ефективного та результативного впровадження системи винагород, заснованої на результативності.

**Ключові слова:** оплата праці, заробітна плата, системи оплати праці, структура заробітної плати, оцінювання працівників, ефективність праці

**Introduction.** According to the current legislation of Ukraine on remuneration of labour, remuneration systems are base-salary and

other systems formed on the basis of the work complexity assessments and the qualifications of employees (Part 1 of Article 96 of the Labour Code of Ukraine [1]). Therefore, employers can use both the wage system and others. At the same time, domestic legislation does not specify what "other remuneration systems" an employer can use. In world practice, tariff-free and flexible remuneration systems are used. Remuneration systems based on the results of employee performance evaluation are becoming especially relevant. I believe that such an experience would be useful for Ukraine, as there is an unfair distribution of the salary fund at domestic enterprises. This is manifested, in particular, in the fact that workers who "pull" more workload earn the same salary as those who perform a minimum of tasks. A striking example here is the remuneration of academic staff, because in the domestic reality some employees publish scientific articles, monographs, participate in conferences, constantly improve their skills, develop manuals, textbooks and other teaching materials, and teach disciplines, but earn the same wage as other employees who do not do all this, but hold the same position. This approach is unfair, as the first group of employees spends their money on their professional development and on the benefit of certain higher education institutions. Therefore, I believe that the basis of remuneration should be based on the labour results of employees, their achievements and high qualifications and professionalism. It has long been necessary to move away from "equalization" in remuneration, because everyone performs the same duties differently, and therefore remuneration should be different. That is why I turned to the experience of Japan and China, because it is in these countries that such an approach has always been used, and therefore their practice can be useful for Ukraine.

**Literature review.** Issues of remuneration have always been in the center of attention of scientists, in particular: M.G. Alexandrov, M.J. Baru, N.B. Bolotina, V. Ya. Burak, Yu. M. Burnyagina, N.D. Hetmantseva, K. K. Dovbysh, V.V. Zhernakov, S.S. Karinsky, T.V. Kolyada, R.Z. Livshits, Y.I. Marchenko, A.E. Pasherstnik, S.M. Prilipko, O.I. Protsevsky, C.L. Rabinovich-Zakharin, J.V. Simutina, O.M. Yaroshenko and others. At the same time, lawyers did not study the issue of remuneration based on the results of performance appraisal.

Therefore, **the aim of the article** is to clarify the foreign approach to remuneration based on the evaluation of employees, in particular, the experience of Japan and China, as these countries have positive practices in these matters, and therefore such experience can be useful for Ukraine.

**Results and discussion.** In Japan and China remuneration has been based on the results of employee performance appraisals for a long time. These countries have developed special methods

of calculating wages, which take into account many indicators. What exactly are these indicators and how it happens is disclosed in the following paragraphs of the article.

### **1. Wage System in Korea: Employees Perspective**

Raising flexibility of compensation system is emerging as a big social issue as

Korea is facing rapidly aging population and deteriorating corporate competitiveness. According to a survey conducted by Korea Labour Institute, highly educated and young employees prefer job-and-performance-based compensation to a seniority-based one. The survey also found that employees like to have multi-factor pay systems. The factors may include seniority, performance, and job value while the bonus may also be determined by performance of an individual, group or corporation. Based on the Survey of Workers' Perception on Compensation Scheme conducted by the Republic of Korea Labour Institute (KLI) in 2008, analysis was done on the areas of norms on compensation and work-related values that might impact workers' preference for a pay structure. These include workers' ideal compensation scheme and type, the acceptable range of wage differentials resulting from different levels of performance, preference between individual versus group performance-based salary, willingness to tradeoff between better working conditions (including employment and working hours) and part of the salary, the acceptable range of such trade off and the desire to have a greater say in wage-related matters [2, p. 24].

Among the base pay determinants mix favoured by workers are seniority, performance and job value while for determining bonus, workers are attuned to the mix of individual, team, department and company performance. When faced with the risk of unemployment, workers entitled to competency or jobbased pay schemes are more likely to give up a part of their salary than those who are covered only by a seniority-based scheme.

Work related values and the fairness criteria have a substantial impact on workers' preferences for a pay structure. Specifically, workers who are highly educated, young or hold office/managerial positions are more apt to place a greater importance on intrinsic values and equity; factors that are directly correlated with a job-based or performance-based compensation scheme [3, p. 180].

Since the financial crisis, companies in Korea attempted to improve the pay structure by increasing the performance-based factors within the existing pay structure, the best example being the "annual salary system". For individual companies, converting the current automatic pay raise scheme into a performance-based scheme will help ease the rigidity of the current pay structure. The prerequisite is that fairness must be ensured when evaluating

performance. Responsibilities should also be allocated appropriately to allow equal opportunities for all individuals to make the best use of their skills and talents and adequate investment should be made to develop necessary human resources. Improvement in the overall work system should precede the move toward broader implementation of the performance-based pay structure [4, p. 132].

Workers acceptance of a revised pay structure should be ensured by encouraging their participation in the process. No pay structure can be successful without the support from the workers. Listening to individual workers is important but if there is a representative group, sufficient discussion should be held with the group prior to implementing a new scheme. It should be noted that to encourage dialogues between the management and the workers on pay structure at the individual company level it is necessary to first promote labour-management dialogue at the national level [3, p. 165].

### **2. Performance-Based Remuneration in China**

Pay for performance programs are compensation plans that pay employees on

the basis of some performance measure. This performance measures might include such things as individual productivity, team or work group productivity, department productivity, or the overall organization's profits for a given period [5, p.150]. There are many different determinants which firms use to make decisions on compensation. However, compensation experts agree that traditional formulas of paying employees on seniority or merit-pay basis fails to properly balance organizational profitability and employee professional goals.

To ensure a win-win scenario, many companies introduce wage restructuring for improving the wage system to link with the firm goals and much closely to focus on performance. Wage restructuring does not mean an across the board wage cut, it means linking workers' pay more closely with their performance, and making it less dependent on seniority in the job. When the government adjusted the pension system from defined benefit plan to defined contribution plan for controlling and managing the firms cost, performance-based is prevailing for all industries.

Pay for performance programs are gaining in popularity in China organizations. The survey of Watson Wyatt found more than two-thirds of surveyed companies in consumer products, high-tech, financial services, and pharmaceutical industries paid a performance-related bonus to employees. Variable bonus was most notable in the chemical industry, where 90% of surveyed companies paid bonus. It is increasingly popular for companies to adopt a performance-based variable program in China [6, p. 270].

The growing popularity of performance-based compensation can be explained in terms of both motivation and cost control. From a motivation

perspective, making some or a worker's entire pay conditional on performance measures focuses his or her attention and effort on that measure then reinforces the continuation of that effort with rewards. However, if the employee's team or organization's performance declines so too does the reward. This has led to enhanced performance and higher productivity. Thus, there is an incentive to keep efforts and motivation strong. Some of the motivating factors are reflected in the enhanced morale in terms of reduction in absenteeism, lower medical bills and less staff turnover.

On the cost-saving side, performance-based bonuses and other incentive rewards avoid the fixed expense of permanent and often annual salary increases.

The bonuses typically do not accrue to base salary which means that the amount

is not compounded in future years. It is also found that many performance based incentives are based on cost reduction in terms of savings and reduction of wastages. As an example, if the department's utilities bills are reduced from US\$10,000 per month to US\$8,000 per month then the savings of US\$2,000 will be shared based on an agreed savings formula or if at the production floor, there are reduction of wastages in terms of raw materials, then the amount of reduction in wastages will also be shared between management and employees [2, p. 256-257].

Performance measure and management is essential for implementing performance-based compensation system effectively and efficiently. If there is no evidence to show what the performance is and how it can contribute to wage then it will not work to motivate employees.

The review result in general is divided into 5 levels, excellent, outstanding, good, fair and need to improve. In some cases, there are only 3 levels for performance rating, outstanding, success and poor. The rating ratio in 5 levels model maybe is 10%, 20%, 40%, 20%, 10%; in 3 levels could be 15%, 70%, 15%. The final result of the performance review is to link to: (1) compensation adjustment such as base salary increase (including annual or monthly increment), bonus such as profit share (including cash bonus and stock bonus), year-end bonus and for a few companies in hi-tech the bonus is based on performance and is 2 or 3 times more than the annual compensation. For example, in some companies, when the employee was rated as outstanding and is a fast-track worker, these employees will be promoted to a higher position in 1 or 2 years compared to those employees who were rated as satisfactory will only be promoted in 3 to 4 years time.

32 enterprises in China were surveyed to focus on how enterprises implement their performance-based compensation scheme and maintain their

excellence when facing global challenges and enhancing competitiveness. These target enterprises comprise those from petrochemical, high-tech, automobile and food. Among these companies, 46% have strong linkages of compensation to performance, 25% have a normal linkage and 29% are beginning to moving to performance-based system smoothly but are facing strong resistance from the trade union, employees or incompetent managers [7, p.20].

It is clear that an inappropriately designed compensation scheme can be counter productive. Moreover, any company can move from paying equally to pay equitably, if not, they will not get loyal workers and there will be no alignment between workers and business results. However, in practice it had been proven that the variable component in the company's pay system has motivated the staff to perform and makes them aware of the company's business performance. The design of a good performance-based compensation is fruitful and essential for companies to enhance competitiveness.

It is now encouraging companies to move to the performance based system to help enterprises and employees to achieve a win-win situation and to enable both the employers and employees to move together for success. However, companies should understand that the performance-based system is not to exploit employees but to foster employees as the human capital for the company. Although the move towards a performance-based system is a hot issue for many companies to seek an opportunity to achieve a more flexible salary regime, there are several implementation problems that need to be addressed as follows [8, p.120]:

1. Many employees, especially those in the services sector are not in favor of the performance-based system as they are afraid that the performance level ascertained by the companies are not realistic and will not be achievable even if they perform well. There is also a belief that the system will add on to their workload without additional compensation.

2. The objective of most firms to implement the performance-based compensation system is not to motivate employees but to or cut down the labour cost. With this objective the design of the system is biased towards employers and thus when the system is implemented, will lead to higher staff turnover.

3. Performance appraisal system and the skill to conduct this system is essential for implementing the performance-based compensation system, however, many enterprises fail to deliver a good appraisal or review procedure which can appraise employees with transparency and equity. The performance factors developed for appraisal is often not measurable, and employees are wary about it.

4. If there is an in-house trade union they will usually challenge and resist this system. If the firm fails to discuss and negotiate the system with the trade union and gain their acceptance then the system will not be implemented.

5. Performance-based system is a challenge and requires commitment from both parties. Performance-based is task-oriented rather than people-oriented. When a company employs performance-based system there is a fear that employees will only focus on performance and will not be committed to improving quality. This will in turn affect the overall development of company.

**Conclusions.** In Japan and China remuneration has been based on the results of employee performance appraisals for a long time. These countries have developed special methods of calculating wages, which take into account many indicators.

Korea is facing rapidly aging population and deteriorating corporate competitiveness. Companies in Korea attempted to improve the pay structure by increasing the performance-based factors within the existing pay structure, the best example being the "annual salary system". For individual companies, converting the current automatic pay raise scheme into a performance-based scheme will help ease the rigidity of the current pay structure. The prerequisite is that fairness must be ensured when evaluating performance. Responsibilities should also be allocated appropriately to allow equal opportunities for all individuals to make the best use of their skills and talents and adequate investment should be made to develop necessary human resources. Improvement in the overall work system should precede the move toward broader implementation of the performance-based pay structure.

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