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Direct versus Indirect Rewards for the Attraction of the Employees

Elena-Sabina HODOR¹

Abstract

What do employees need most in terms of rewards? There is a “optimum package” for rewarding? What percentage of direct and indirect rewards should contain a reward strategy? These are only a few of questions that are elucidated with this paper. In order to make a clear image about direct and indirect possible rewards, this article defines: wages, bonuses, premium pay, participation at profit, different incentives, other direct rewards, mandatory and pension rewards, insurances, paying the not worked time and other indirect rewards and benefits. Further, the theoretical background move forward and make connections also to the legislative connotation of the rewards. The main legislative texts discussed that influence Human Resource Management in terms of direct and indirect rewards are: Law 571/2003 from the Fiscal Code, Title IV from the Labour Code and Employee Benefits from the International Accounting Standards.

Keywords: *direct rewards, indirect rewards, wages, bonuses, premium pay, human resource attraction, mandatory rewards.*

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Introduction

In the XXI century, the social reality has a strong influence on the labour market through internal factors and external ones. The endogenous factors are resulting from "understanding, knowledge and behaviour of the person that performs work" and the exogenous factors "reveal from all the conditions and technical, social, economic and cultural circumstances, that can cause changes in the content and manifestations of work" (Drobotă & Serban, 2008). However, the domestic factors are subjective and the objective ones are purely external. Both of the factors can drive changing of the labour content and therefore, there are influences on the rewards offered on the market. The number and the content of the tasks for a job determines the rewards package offered to an employee. Usually it is direct proportionality between labour productivity and total reward, with the condition that, on long term, productivity must increase more than increases the rewarding package in terms of monetary value. Moreover, it is necessary that the rewards and benefits offered by the company to be correlated with the type of work performed. For example, it is clear enough why the salary package of a sales manager includes car service, laptop and sales commissions, while the total reward for a computer operator offers at least a fixed salary, bonuses for the exceeded targets and free subscriptions to the gym. However, the changes in the structure of the performed work entail new ways to reward the personnel. Further, in order to achieve a balance for this point of view it is the useful to use the direct and indirect rewards, which are investigated in this paper.

What it means the attraction of the employees?

Attracting workers it is an important component for the overall success of the organization. Usually it begins with postings for a particular job and ends with new employments. In the process of recruitment and selection, people that are informed through this stage receive useful details about the company, which ultimately influence the final choice of employment (Boswell, et. al., 2011). The information presented to candidates should include the organizational rewards offered, which certainly have an impact on the hiring decision. People weigh everything they know about the job positions that are similarly to those of the company that wants to attract them (Boswell, et. al., 2011).

Boswell et al. (2011) recommends the following elements of total rewards to attract (and also to motivate and maintain) human resources within organizations:

- Remuneration;
- Benefits;
- Work-life personal balance;
- Performance and recognition;
- Development and career opportunities.

While human resources can be attracted through different contests and the finality of these actions bring new employments for the organization, Frank et al. (2004), define the maintenance of employees as "an effort made by the employer to keep employees in order to achieve the organizational goals" (Akhtar et. al., 2015). However, in order to attract and retain the workforce in companies, should be used total reward, which offers not only financial rewards to staff, but also non-financial rewards, which ultimately brings intrinsic motivation. In this way, people grow and develop in terms of competencies, skills and many other aspects.

Attracting highly qualified labour force shows growth potential for companies from all points of view, and this it is an extremely important process that can be performed using total reward methods. These being said, we point out that each domain has its own rules regarding the practices of rewarding staff during employment. For instance, the production companies have different salary policies from those that are providing services. Also, companies with foreign capital have another vision in terms of rewarding employees compared to the organizations with Romanian capital. Exceptionally, the mandatory rewards (the legal ones) are valid for all the employers, the fiscal code and other commercial and administrative laws and regulations being applied uniformly.

Types of direct and indirect rewards

By the way of granting rewards, these can be direct and indirect. Granting rewards equitably it is based on the salary scale, since are established connections between the complexity of the jobs and the reward received for each job. Additions for the salaries are used to stimulate the exercise of individual, group and organizational behaviours, and consist in: commissions, prizes, the opportunity to buy shares of the company at favourable prices, and so on (www. rubinian.com).

The indirect rewards can be addressed to the current employees of the company, and also to the ex-employees (www. rubinian.com). The indirect current rewards are: payment for time not worked (paid for periods like: public holidays, annual holiday, the unpaid days off, pay for other marriage days, funerals, etc.); health insurances (paid sick time off, subscriptions granted to private clinics, public health services provided free or with a discount, and so on); protection of employees for injuries or illnesses; special privileges employees (products and services obtained to preferential price from the company, deducting transport costs in whole or in part, providing free meals at work, special places for recreation, equipment, food or protection of employees that work in harmful conditions, etc.). The rewards for the ex-employees are indirectly related to: providing income to pensioners; protection of the unemployed people (the unemployment wage, health insurance, social assistance, rehiring with priority former employees, and others, etc.).

A vision for the direct and indirect rewards it is exposed in the following table:

Tab. 1.1. Types of direct and indirect rewards

	Rewards	The content of the rewards/conditions
Direct	Wages	The tariff salaries (base wage) of the executives' personnel and management staff.
	Increases	Bonuses are allocated to: difficult working conditions, seniority, supra effort, stability, fidelity overtime.
	Awards	Prizes are usually granted for the outstanding results of the employees (from the wage fund or the annual profit of the company).
	Profit participation	The participation at the company profits it is possible for the employees accordingly to their contribution to the results in terms of performance.
	Various incentives	Sales commissions or bonuses fall under this category.
Indirect	Other direct rewards	The possibility of buying shares from the company.
	Legal requirements for the rewards (minimum level)	Social security, supporting the unemployed people.
	Rewards concerning the pensions	Private pension fund, survivor pension, anticipated retirement, disability pension or supplementary pension.
	Insurances	Medical insurance, accident insurance, life insurance, disability insurance, aid to survival.
	Payment of time not worked	Holidays, pay of the days for participation in elections, personal events.

Other indirect rewards	Restricting of the company activities, cover total/partial from the cost of schooling, transport, and canteen costs, consulting for employees in various areas, conditions for recreation.
Special privileges granted to employees	Products and services unit activity provided free or discounted, protective equipment free of charge.

(Source: adaptation after Mathis, et al., 1997, p. 23; Bostan and Arsenie, 1999, p. 13)

This classification include only the rewards in which the organization engages in expenditures. If the costs incurred by the firm go directly to employees, then the rewards are direct. If the organization spends money on other financial benefits to employees, then the rewards become indirect. Direct and indirect rewards include first of all the mandatory rewards according to law, and then other monetary benefits, in compliance with the company's budget and staff preferences. Direct rewards consist in money allocated to employees after they have achieved performance, and can be: salaries, bonuses, benefits, etc. Indirect rewards are all the other elements such as: health insurance, life insurance, accidents aids and other facilities (Bostan and Arsenie, 1999).

What can influence the nature of direct and indirect rewards?

For a clear picture on the definition of direct and indirect rewards (from Romania) are also important the legislative connotations. The main relevant legislative texts that can be consulted are:

- Law 571/2003 from the Fiscal Code, Art. 55-60, related to the incomes from wages (www.legeaz.net);
- Title IV from Labour Code, Art. 159-174 (www.codulmuncii.ro);
- Employee Benefits from International Accounting Standards, Art. 1-49 and 172-173 (www.eur-lex.europa.eu).

Art. 55 of Law 571/2003 states that incomes from wages are "income in cash and/or in kind made by a person who pursues an activity based on an individual employment contract or a special status provided by law" (www.legeaz.net). Basically, the legal framework of Law 571/2003 has corresponding concepts in Human Resource Management remuneration. The same article does not include incomes from wages, and therefore are not subjects of taxation the following items:

- Different aids (for funerals, natural disasters, serious illness, transport of employees to/from work, etc.);

- Spending on food for employees, the telephony subscriptions for performing the activity;
- Diems;
- Protective equipment, sanitary materials and other items used for the protection of labour rights;
- The incomes of people with severe disabilities;
- The incomes of people that are working to create programs;
- Expenses related to training of the employees;
- Other items under applicable law.

Art. 159 from Labour Code indicates that salary (www.codulmuncii.ro) it is "the reward for the work done by an employee on the basis of an individual employment contract", specifying that it is quantifiable in money: "for work under an individual labour contract, each employee it is entitled to a wage in cash". Moreover, Art. 160 from the Labour Code indicates that wage has the following elements: "basic salary, allowances, bonuses and other additions" (www.codulmuncii.ro). This definition it is more comprehensive.

Employee benefits are discussed extensively in The 19th International Accounting Standard, and a complete definition from a legal standpoint it is as it follows: "Employee benefits include benefits provided to either employees or their dependents or their beneficiaries and may be settled by payments (or the provision of goods or services) made either directly to the employees, to the husband, children or other dependents or third parties, such as insurance companies" (www.eur-lex.europa.eu). However, this refers to the following types of benefits provided:

- Benefits under formal plans or other formal agreements between an entity and individual employees, groups of employees or their representatives;
- Benefits under legislative provisions or sector level agreements, whereby entities are required to contribute to national, state, district or other multi-employer plans;
- Benefits through informal practices that generate an obligation (an implicit obligation arises when a change in the entity's informal practices would cause unacceptable damage to its relationship with employees).

The same standard classify the employee benefits as it follows:

Short-term employee benefits (if these are expected to be paid within twelve months):

- Wages, salaries and social security contributions;
- Paid annual leave and sick leave pay;
- Profit sharing and bonuses;
- Non-monetary benefits (healthcare, housing, cars and goods or services free or subsidized).

Post-employment benefits:

- Retirement benefits (pensions, lump-sum payments on retirement);
- Other post-employment benefits (post-employment life insurance and medical care post-employment).

Other long-term employee benefits:

- Long-term paid absences;
- Anniversaries or other benefits related to seniority;
- Long-term disability benefits.

Compensations for termination of employment.

As an observation for the previous classification it is that the legal classification should position post-employment benefits after other long-term employee benefits. After this removal, termination of employment should be placed before post-employment benefits. The reason for this order it is the correct classification of the elements under the natural circuit of life.

Regarding post-employment benefits, the European standard specifies the distinction between defined contribution plans and defined benefit plans:

Art. 27 specifies that under the defined contribution plans, the entity's legal or constructive obligation it is limited to the amount that agrees to contribute to the fund (www.eur-lex.europa.eu). Thus, the post-employment benefits received by the employee it is determined by the contributions paid by the entity (and perhaps also by the employee) to a post-employment benefit plan or an insurance company. As a consequence, the actuarial risk (benefits can be less than expected) and the investment risk

(the invested assets can be insufficient to meet the expected benefits) incumbent essentially to the employee.

Art. 30 states that under defined benefit plans, the entity's obligation to pay current employees and former employees agreed the benefits pre-agreed and the actuarial risk and the investment risk fall, in essence, to the entity (www.eur-lex.europa.eu). If the actuarial achievements are worse than expected, the entity's obligation may be increased.

Which does not specify the classification in terms of Human Resources Management and specified the law, it is that these bearers of benefits can be both direct (employees) and indirect (wife, children, insurance companies, etc.). It is recommended that top management of a company to be well informed about legal options that could create legal transactions and mutually beneficial relationships between employees and employers. Finally, the using of legislative opportunities should lead to more loyal and motivated employees, satisfied with their total reward.

Conclusions

Attracting workers it is an important component for the overall success of the organizations, and nowadays it is necessary that the rewards and benefits offered by the company to be correlated with the type of work performed. While direct rewards consist in money allocated to employees after they have achieved performance, and can be: salaries, bonuses, benefits, etc., indirect rewards are all the other elements such as: health insurance, life insurance, accidents aids and other facilities.

The influences on direct and indirect rewards are coming from different sources. Some of the most important sources in order to make a clear picture on the definition of direct and indirect rewards (from Romania) are: Law 571/2003 from the Fiscal Code, Art. 55-60, related to the incomes from wages (www.legeaz.net); Title IV from Labour Code, Art. 159-174 (www.codulmuncii.ro); Employee Benefits from International Accounting Standards, Art. 1-49 and 172-173 (www.eur-lex.europa.eu).

It is recommended that top management of a company to be well informed about legal options that could create legal transactions and mutually beneficial relationships between employees and employers. Finally, the using of legislative opportunities should lead to more loyal and motivated employees, satisfied with their total reward.

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