



# Salary in Labor Market

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**Abstract:** *The salary is an important component of human resources' management; ultimately, it is the main reason why people work. The reactions of employees to salary change depend in a considerable extent on how the reasons for salary policy change are communicated to employees. The salary is a more motivating factor in making a decision to choose the job than leave it. This is because work characteristics are not known before the employee starts a job, and when the employee has a long time working, other factors play a motivating role in his decision to leave the job. Salaries play a modest role in motivating performance in systems where people receive the same salary, regardless of individual performance, or group they belong to. Salaries received by employees, employment benefits, and working conditions are affected by government. There are minimum salary laws, the pension regulations, safety, immigration controls etc. All these provisions and rules have one thing in common: they raise the cost of employers to hire employee.*

**Keywords:** *Salary, Employees, Labor Market, Reward, Organization.*

## INTRODUCTION

Economists are interested in knowing not only how labor quantity change, when hourly level salary changes but as well as how does it change. So, they are interested in knowing and measuring the degree of responsiveness of the labor market agents against the change of a given salary (Qirici S, 2004). Salary is the price paid for input or factor usage. Economists use the term work salary in the broad sense of this concept, including labor and specialists' salary and some other payment components (Lipsey R, et al., 2007). It is important to make the distinction between nominal salary and real salary (Qirici S, 2004).

The nominal salary is the amount of money earned for a certain amount of hours by employees, while real salary is the amount of goods and services that can be purchased with nominal salaries.

Real salaries depend on two factors: the size of nominal salary and the level of prices of goods and services.

Real and nominal salaries are not said to change in the same direction, nominal salaries may increase while real salaries can be reduced or remain unchanged.

### **Types of salaries:**

#### **a. Fixed salary system**

In fixed salary system, salaries are determined in a fixed amount. In public administration system, there are treated heads and members of collegial bodies governing constitutional institutions and other independent institutions, which are created by special laws. People treated in this system do not benefit other supplements.

**b. The salary system based on degrees**

The salary system based on degrees includes military personnel such as: State Police, Prison Police, employees in the Ministry of Foreign Affairs, the National Intelligence Service, and the National Guard. Monthly salary components in this system are (Doda. S, et al., 2016).

- a) Salaries based on grades;
- b) Various extras according to special job nature;
- c) Allowances for difficult conditions, harmful to health.

**c. The salary system of support staff**

This system includes support staff such as warehouse workers, drivers, medium technicians of different specialties, etc. Salary components are:

- a) Fixed value salaries according to the class;
- b) Additional management function;
- c) Additional special nature of job (at fixed value);
- d) Additional adverse working conditions, harmful to health

**d. Awards**

The existing system of awards includes<sup>1</sup>:

- a) The remuneration system for annual performance of individual civil servants, which is provided in accordance with the annual achievement of individual civil servants, may be rewarded with a full salary, with 70% of salary or 50%, according to the level of evaluation;
- b) bonuses for good performance during the year, whether they are applicable and permitted by law (e.g., taxes);
- c) Fixed remuneration at the end of the year for social reasons.

Many companies administer their employees' salaries by setting fixed fees for a certain period. They often apply a minimum salary from job admission. These fees generally remain fixed for a year or more and when they changed their regulation they become more or less proportional to all kinds of salaries. For unionized labor markets, salary behavior is more solidified. Salary tariffs set for a certain specified period in employment contracts and salaries during longer periods cannot act as a regulator of the labor market, to adapt to that level of demand to supply. Some economists point out that unchangeableness (inflexibility) in salaries is due to costs of salaries administration (Mancellari. A, et al., 2002). For example, in the unionized labor markets salary modification is a process that requires a time-consuming process and many other expenses. Such a thing would require first and foremost a collective labor agreement. But this process is so costly, so that agreements are relatively rare, once in three years. The labor market cannot be cleaned immediately, and go immediately to the conditions of equilibrium, therefore will have the surplus and shortage of labor in individual markets for a certain period of time.

Considering labor markets in competition, salary is neither in control of companies nor employees. So, neither one nor the other, can determine the level of salaries, because they occupy a very small specific weight in total market. Consequently, companies working in this market and employees are salary carrier and receiver respectively (Qirici. S, 2004).

This is a sensitive and controversial topic, which is widely debated in practical level, as well as in theory. In the US, the term "compensation" is used to denote everything that has taken an individual employee in return for work. Employees may see compensation in return for a well done job.

Remuneration or compensation that employees receive for their contribution to the organization is included in monetary and non-monetary components (Kasimati. M, et al., 2002). The reward does not only reward employees for their efforts; it has also an impact on recruitment and retention of talented people. And when we talk about the reward we consider the phrase "prior to working hours", but actually reward is a broad

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<sup>1</sup><http://www.dap.gov.al/images/revistat/revista10.pdf:24-15>

system of elements that should be viewed with caution. A successful system of rewards is summarized in organizing these elements:

**Non-monetary reward:** in itself involves acquisition of intangible values. Intangible value in this case may be careers and social services such as job security, flexible working hours, professional growth, development, praise, recognition and strong friendships.

**Direct remuneration:** it is the basic remuneration for an employee; the reward can be an annual salary, paid hourly or any other salary based on employee performance. Alternatives to this kind of reward are:

**Basic Salary:** it is cash salary for the employees. This is a standard practice of rewarding and may be considered a competitive advantage when the reward is very high.

**Incentive Salary:** it is given in the cases where the objectives set by employees' performance are met. This incentive encourages the employee to achieve higher levels at work, and is an excellent motivator to meet business goals.

**Selection Possibility:** it is in those cases when a part of the business may be acquired by an employee who has done a great service for the business. An employee, who owns a business, is encouraged to work harder.

**Bonuses:** are awarded occasionally on special occasions or to reward exceptional performance. Bonuses exhibit positive assessment of the results and special events shown by employees in their work.

**Reward related to performance:** this reward makes possible the quantitative and qualitative relationship of salary with work, considering daily, weekly, monthly or yearly performance. The salary of each period depends on the previous period. Both ways of remuneration should function together to convince employees that how they are rewarded is directly related to the work they did (Kasimati. M, et al., 2002). However, there might be dissatisfaction with regard to the rewards. Limiting such dissatisfactions, the management should increase its efforts to refine performance-reward relationship. Employees need useful information concerning goods and services production, because this is the only way for employees to understand how they carried out their duties (Kalemi. F, 2006).

**Indirect reward:** it is a very different process from above rewards, it includes everything starting from the required legally public programs like social and health insurance, retirement programs, paid holidays, and caring about children or shelter; accordingly, the indirect reward becomes very important in the labor market. Businesses that cannot compete with high salaries can provide many opportunities to meet individual needs of people who want to be employed. Such creative compensation options are the competitive advantages of small business in general. Indirect compensation ways could be:

- Flexible working hours;
- Elderly care;
- Retirement programs;
- Movement expenses;
- Health insurance;
- Shelter support;
- Paid permits (illness/ vacation / personal days);
- Tickets for events;
- Clothing;
- The use of working equipment;

- Food provided by work;
- The use of fixed and mobile phone;
- Child care.

### **One wage for homogeneous labor**

If all workers were identical and labor markets were perfectly competitive, everyone would earn the same wage in equilibrium and that wage would be equal to the marginal revenue product of labor. We know that in the real world, this is not the case. Some people work full time and are in poverty, other are able to live very well on what they earn for working. Generally, the more education and experience a worker has, the higher his or her wage will be (Lypsey. R, et al., 1996).

Employees are different from each other in many ways. The jobs have distinctive features in terms of salary and nonmonetary attributes (Mankiw. G, et al., 2012).

### **Wage differentials in competitive markets**

Under competitive conditions the wage rate and level of employment are set by supply and demand. No workers or group of workers and no firm or group of firms would be able to affect the market wage. Indeed, if all workers and all jobs were identical, there would be only one market wage. In competitive equilibrium, we can distinguish several major sources of difference in payments (Lypsey. R, et al., 1996).

Where job tasks are complex, more uncertainty may attach to the time required to execute the job than to the wage rate per period. In these circumstances, bargaining over the length of time to complete a job task may be as important as or more important than fixing the wage rate. The employer will wish to make a surplus from the task, while the employee will wish to be remunerated at a level that is at least as valuable as his/her best alternative opportunity (Bell. D, et al., 2001).

Nonmonetary factors such as location of employment and other working conditions are more important in the labor market than in markets for other factors of production. Considerations other than material advantage also enter the relationship that involves loyalty, fairness, appreciation and justice along with paychecks and productivity. It is also a relationship that many involve both actual and perceived discrimination on the basis of such things as gender, race and age. The performance of labor markets will be affected by all of these noneconomic considerations and more (Lypsey. R, et al., 1996). Labor unions, employers' associations, collective bargaining and government intervention in market-wage determination are important features of labor markets. They influence wages and working conditions and affect the levels of employment and unemployment in many industries. This means that the basic theory of factor price determination must be augmented before it can be applied to the full range of problems concerning the determination of wages (Lypsey. R, et al., 1996).

### **The importance of salary as a motivating factor**

The salary is more important in choosing a job when they differ greatly from one employer to another, rather than when they are uniform.

The effect of downward marginal usefulness of increased salary means that if salaries are "below market rates" the displeasure (de-motivation) that will be caused would be greater than the pleasure caused when the level of salary is above the market average. The importance of salary system on employee motivation has greater impact when this salary system changes. Employees are especially sensitive to salary cuts. For example, if employees become subject to salary cuts, we will have increased significantly stealing.

Studies made about productivity Meta-Analysis<sup>2</sup> in work environments by Locke, E. A., Feren, D. B., McCaleb, V. M., Shaw, K. N., & Denny, A. T. (1980) emphasize that the establishment of reward incentives

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<sup>2</sup>Meta-Analysis: method that combines different assessments made by studies that provide a better evaluation of the variety of the studied population

(premium) leads to increased productivity by an average of 30%. In contrast, labor enrichment leads to an increase in productivity of around 9-17%, while increasing employee participation in decision making leads to an increase in productivity by around 1% on average. Other researchers like Guzo. R, Jette. R, Katzell. R (1985) show that studies conducted by meta-analysis of monetary incentives and other incentives programs affecting output, highlight that the financial incentives had the greatest impact on productivity. For example, salary has an impact about four times greater on increasing productivity than other interventions such as designing a more interesting job.

Studies conducted using meta-analysis about the relationship between financial incentives and performance of quality and quantitative production Jenkins, G.D, Mitra, A, Gupta, N., & Shaw, J.D. (1998), show that there is a correlation between reward incentives and quantitative production, but a correlation was not observed between reward incentives and qualitative production.

### **Salary based on competencies**

The level of competence expected from an effective individual, in a defined role and the current levels he has achieved compared to the requirements.

In some schemes, people are evaluated based on each competency required. The evaluation can be presented in a scale as: the level exceeds the required competences, "completely competent", "incompetent", "not competent but still developing to achieve requirements", "not competent but still developing less than expected requirements". These evaluations are translated into a salary increase.

According to Brown and Armstrong (2007), the problem of salary based on contributions, is how to measure the levels of competence. Measurement and evaluation of the competence levels will be achieved only by a good research and a better definition of the framework of competencies needed. Once this is done, people should be trained about how to obtain and evaluate their level of competence. Then the use of these competencies can be translated in terms of output and skills that an individual should have in order to be assigned to this role. The ability should be understood as doing something that brings results.

### **Salaries based on work contribution of employees**

Salaries based on work contribution of employees are based on the reasoning that the employee should be rewarded for the input he gives (skills) and the level of his achievements (output).

So, it includes a mixed model of management based on performance, where are also valued skills and results. Salaries based on work contribution of employees combine the characteristics of salaries based on performance and salaries based on competencies.

## **Conclusions and Recommendations**

Albania has the lowest minimum wages in Europe, which is why Albanians migrate to developed countries.

One of the important elements of the labor market are salaries and rewards, because of their impact in increasing the job satisfaction.

Nowadays, employers can choose between a large numbers of elements reward, thus creating remuneration packages for their employees individually.

Salary based on competencies provides an evaluation progressive relationship for each level of competencies that individuals have achieved. Competence of each level is usually assessed by managers of this level.

The importance of salary system on employee motivation has great impact on performance of employees.

Managers should pay attention to the salary system. The salary systems in organization must to be fair and meritocratic.

Salaries affect employees' morale, organizations should be correct in employees' payments because the lack of timely payment of the wages affects reputation of the organization and stress in workplace.

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