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Abstract

This paper is about the promotion of industrial peace where labor and management work hand in hand to succeed in their business. The frameworks on competency-based compensation and equitable sharing of income are meant to distribute the wealth generated by businesses fairly and to efficiently manage the business in terms of cost and productivity. In this manner, prosperity will be achieved even in developing countries where gap between the very rich and the very poor is beyond imagination. Profit maximization is given a special meaning in this study. It is no longer just about shareholders' wealth but that of all stakeholders' interests.

Introduction

Profit maximization is the ultimate purpose of a business enterprise. This crucial goal of earning reasonable amount of profit is just right for a business to recover the investments it has spent or at least give a considerable return bigger than the risk free investments available to the shareholders. However, in today's new paradigm of corporate social responsibility (CSR), new shifts in views now also include the protection and care of social and physical environment as one of the goals where the business enterprise operates. In most cases, CSR has been used as a synonym for business ethics and for corporate philanthropy [4]. This philanthropic activities which are mostly outreach programs usually turn into marketing strategies in building the image of the company as a responsible corporate citizen.

Expenses for outreach programs in most cases form part of the operating expenses of the business enterprises. Companies benefit from the tax shields and at the same time, they project themselves as caregivers to the less fortunate or the environment. There are some misconceptions and confusions on the real intentions of outreach programs. They are meant to help the society as a whole. It is a way of unconditionally giving back to society for the success the business enterprise has attained.

Unfortunately, a lot of these business entities support social projects outside of their companies through outreach programs without looking inside their own turfs. Many of these entities employ contractual employees especially for their non-core activities. The hiring of contracted services is a sound business strategy from the perspective of cost management but it is not from the point of view of corporate social responsibility. Discrimination will surely exist if a company hires contracted services' employees within its premises. Discrimination will come in the form of salaries, benefits, and other intangible things including self-worth.

The idea is to promote "in reach" programs first before embarking on outreach programs. "In reach" programs ensure that employees of contracted services or agencies are assured of decent wages and benefits as well as perks from their employers. "In reach" programs may not promote the image of the company but will be able to combine the strategies of cost management and corporate social responsibility.

With this objective of promoting "in reach" programs within organizations, a competency-based compensation coupled with equitable sharing of income can be adopted.

The concepts of individual and career competencies and core competencies of the company are not new concepts [2]. In the current global economy, business organizations are realizing that people are their most critical resource and the primary source of competitive advantage. Competency-based compensation and equitable sharing of income can create an environment in which employees are encouraged to deliver their best possible work [1].

Gap Analysis

The employment or hiring of contracted services in a company's premises poses several moral and legal implications especially to the labor-only contractual agreements. The perfect solution is to stop hiring contractual employees and convert those already in employment to become regular employees. However, this will create complications on cost management and benefits administration. Operating expenses will surely rise not only in terms of labor costs but also in other non-wage benefits. Existing labor legislations are becoming disincentives to most business enterprises such that they resort in circumventing the labor laws and hire contracted services.

This is the gap that needs to be addressed by organizations that is serious in their desire to create an environment in which employees are encouraged to deliver their best possible work that will contribute to company's profitability and at the same time deal with the need of any entity desiring to become a responsible corporate citizen. Many proponents of corporate social responsibility believe that companies benefit in many ways by considering a broader and longer perspective that goes beyond the satisfaction of earning profit [11].

Framework

There are two frameworks that may help in reducing if not eliminating the gap mentioned. These are competency-based compensation and equitable sharing of income. The two frameworks should be used together to obtain positive results.

Competency-Based Compensation (CBC)

Many companies around the world have tried at least one or a combination of human resource strategies that were developed in recent years in order to discover the organization's competitive advantage in an ever-changing business environment. Included among these modern approaches is the one that develops organizational and individual competencies that supports the company's "core competencies". Competency development at the individual and company levels has been employed to support much needed changes in the manner the company hires, trains, plans and monitor the human resource system of the firm [6]. However, organizations are realizing that while many of these innovative methodologies, including the use of competency-based models are not as effective in accomplishing the company's vision-mission and achieving their goals without the support of similarly innovative compensation policies [7].

Competency-based compensation is not a new concept. In fact, a good number of human resource practitioners have used this as a basis for promotion in rank and position of employees. The researcher suggests a tweak in the existing competency-based concept in the use of fixed or permanent cost for a leveled competence or specialized skill. For a particular task or activity, there is a defined standard minimum requirement in terms of educational attainment, skill level of the personnel, completion time, and the exact amount of labor and other resources to finish the work, task or activity. The labor or compensation should be computed based on the country's consumer price index and other indicators to determine a livable or decent wage together with the allowances inherent to the job (for supervisory and managerial employees only). There should be a separate allowance for those who are supporting their spouses, limited number of children and parents (if unemployed) for unmarried employees. In this manner, expenses of the company are fixed and proportional to the number of outputs or products and services.

Equitable sharing of income (ESI)

Income or profit sharing is not a new scheme in management. A number of societies around the world from both the government and private sectors have advocated sharing of income and employee participation in business decision making as a means of increasing employee efficiency, work satisfaction and company profitability. In the 1970s, a study was made by James Markusen [10] showing the relationship between the reward structure and worker behavior in achieving the company's goals and objectives.

The benefit of considering both the remuneration structure and employee job performance in making the company successful was well publicized that many progressive companies have adapted ESI strategy to share the fruits of the company's success to its employees. In this manner, the motivation on the part of the employees is enhanced through monetary rewards at the end of a financial year. ESI added the term "equitable" because a formula is included in computing the financial rewards for both the employees and shareholders. From the retained earnings of a previous financial year, the board of directors will have to decide on the amount of capital expenditure (CAPEX), composed of a fraction or majority of the amount of retained earnings and debt, to be used for the succeeding year. The remaining retained earnings not allotted to CAPEX, will be apportioned as dividends for the shareholders and as bonuses for the employees.

Methodology

Competency-Based Compensation (CBC)

There are four major stages for the competency-based compensation. These are: 1) Development of the activity; 2) Identification of the required minimum resources per activity; 3) Establishment of the average processing time per activity; 4) Computation for the base compensation. Table I describes the input-process-output methodology.

TABLE I
INPUT-PROCESS-OUTPUT METHODOLOGY FOR CBC

Input	Process	Output
-Organizational processes -Inventory of employee tasks or job descriptors	Develop the activities through activity analysis and process mapping	List of activities
-List of activities -Resources	Identify the required minimum resources per activity	Standard activity unit cost

-List of activities -Standard activity unit cost	Establish the average processing time per activity	Activity cost per unit of time
-List of activities -Activity cost per unit of time -Consumer price index -Inflation	Compute for the base compensation	Minimum decent wage

Development of the Activity

The creation or development of the activities of a particular organization should start with the identification of major processes. A process is made up of activities and each must describe the life cycle of an object or output. To illustrate, the human resource process should describe the employee as the object. Therefore, the starting activity is "Hire new employees" and when the employee is already working for the organization, the activity in the cycle is "Administer employee compensation and benefits" until the employee is separated either through retirement or resignation, when the activity is "Separate employees". For the finance process, the object could be the financial transaction in the accounting cycle and for customer service process, the object could be the customer.

For each activity in the process, there should also be an object or output that also describes its life cycle. An activity is made up of small tasks or job descriptors. In the illustration "Hire new employees", the output is the number of new employees hired for a particular period. Therefore, the tasks in the cycle may involve the first task as "Recruit applicants" and end with "Hire applicants".

The final document should contain the list of activities per major process and each activity will have to be described through the small tasks or job descriptors.

Identification of the Required Minimum Resources per Activity

The identification of the required minimum resources per activity is a very challenging assignment to the organization. The hundreds of financial transactions being used by an organization may be pooled by resources that behave similarly in terms of consumption by the activities. In some instances, financial transactions are grouped into management accounts for manageability. In other cases, the management accounts are grouped further to so-called resource pools. Each pool is assigned a resource driver to measure the quantity of resources consumed by an activity.

The identification of the minimum resources per activity starts with the analysis of each cost element in the resource pool. To illustrate, in labor, there are labor rank-and-file and labor supervisory. For the activity, "Hire new employees", identify how many rank-and-file employees and how much of their salary is spent to perform this activity. In the same manner, the supervisory employees must also identify the amount of salary they spent for this activity. The summation of their salaries will be the minimum amount of labor needed to hire new employees.

The same process will have to be performed for the other resource pools such as transportation, contracted services, materials, asset depreciation, other expenses and the internal support services received by the organization.

The total amount of all the resource pools will be the required minimum resources per activity. Note that the actual activity unit cost may be different from the standard cost due probably to many factors such as inflation, changes in the prices of the input resources (like salary increases) and other services. In this case, the model has to be adjusted to reflect the changes in the cost of resources.

Establishment of the Average Processing Time

The computation of the average processing time (APT) per activity is a function of the individual tasks or job descriptors performed by the resources such as labor and equipment. Using the assembly-line approach or life cycle analysis of the activity cost object or output, assign the completion time per task using either time and motion studies or expert opinion from the employees doing the task. If the number of employees is more than one, compute for the average processing time (APT). In some instances, the study can be done observing an average employee while doing the task without him or her knowing about it. For tasks using equipment like machines, the APT will be dependent on the machine performance.

Computing for the summation of all the time data of the individual tasks will reveal the total amount of time needed to complete one unit of activity cost object or output.

Computation for the Base Compensation

The computation for the base compensation will largely depend on the required skill needed for a particular activity. The lowest compensation should be based on the existing minimum decent wage as defined by the national government including some benefits like allowances depending on the need of a particular employee.

Managerial and supervisory employees will be given management allowances. Their position will require additional skills in people management or even additional educational degrees. If they are relieved of their supervisory functions, then the corresponding allowances will also be removed.

Note that this concept does not promote across-the-board salary increases as part of the collective bargaining agreement (CBA). Such increases will defeat the purpose of competency-based compensation. CBA negotiations should be focused on the computation of the base compensation as well as the allowances.

Merit or performance increases are also discouraged in this concept. The performance of each employee will be used as the basis for the distribution of the bonuses through equitable sharing of income. In other words, an employee does not get salary increases because of tenure. Salary increases are based solely on individual competencies.

Equitable sharing of income (ESI)

ESI should follow a formula or framework to become successful. The formula must have been agreed upon by both representatives of management and labor and duly approved by the board of directors.

From the financial statements of the previous year, divide the expenses incurred for labor, materials, transportation, contracted services and other expenses (LMTCO) by the sum of expenses incurred for labor, materials, contracted services, other expenses and depreciation. The resulting ratio shall be multiplied by the unappropriated or unrestricted retained earnings. This amount will be declared as dividends for all shareholders.

$$Dividends = \left(\frac{LMTCO}{LMTCO + Depreciation}\right)\mathrm{Re}\,tainedEarnings - Unappropriated$$

On the other hand, depreciation of capital expenditure (CAPEX) shall be divided by expenses incurred for labor, materials, transportation, contracted services, other expenses (LMTCO) and depreciation. The resulting ratio shall be multiplied by the remaining unappropriated or unrestricted retained earnings. This amount will be declared as bonuses to all employees.

$$Bonuses = \left(\frac{Depreciation}{LMTCO + Depreciation}\right)\mathrm{Re}\,tainedEarnings - Unappropriated$$

The rationale is that LMTCO is controlled by the employees. The more they incur LMTCO, the more the share of the shareholders in the retained earnings. On the other hand, decision regarding capital expenditures such as acquisition of plant, property and equipment is controlled by the board of directors which represent the shareholders. The more they invest in CAPEX, the more the share of the employees in the retained earnings through the depreciation costs. However, if the board of directors will opt not to invest on CAPEX, the products and services of the firm will be affected. CAPEX is inevitable to pursue in a business enterprise; otherwise, productivity and efficiency of the company will suffer. Nevertheless, the formula is flexible enough to address the peculiarities of certain industries such as those which are capital intensive or labor intensive. In these cases, weightings must be included in the formula.

Review of Related Literature

"Creating value through values" (Thomson, J. as cited by Garrison, Noreen, and Brewer) [8] is the credo of many companies who would want to survive the many challenges of today's business operations. The world has become so interconnected over the last few decades that provided businesses many opportunities and/or possible threats in the way they conduct their operation. Garrison, Noreen, and Brewer [8] claim that reduction in tariffs, quotas, and other barriers for free trade; improvements in global transportation systems, explosive expansion in Internet usage; and increasing sophistication in international markets have created a truly global marketplace. In a global market, a company faces a competition not only from local competitors but from companies halfway around the globe. Despite this greater competition posed by the global market, this also means greater access to new markets, customers and workers [8].

With the many challenges and opportunities posed by globalization, companies must have a viable business strategy for succeeding in the marketplace. The strategy adopted by the company must be capable of attracting customers by distinguishing itself from competitors. Profit maximization which is the ultimate goal of every business enterprise can be achieved if a company creates a reason for customers to choose it over a competitor.

Customers in a global economy are considered well-informed due to their easy access of information in the Internet. They do not just deal with companies because they understand and respond to the formers individual needs or because the company delivers products and services faster, conveniently and at a lower prices or due to a higher quality of products or services compared to competitors. Customers and other stakeholders of the company also take into consideration the social performance of the enterprise. This means that a lot of customers and stakeholders are now considering not only individual satisfaction but also how the company treats its employees by considering their on-going learning and satisfaction. Another factor is how seriously the business entity is doing its share in saving and conserving the planet through their responsible environmental stewardship. This is also the reason why sustainability reporting and reporting on corporate governance structures has become the focus of so many business entities around the world [12].

With this global scenario, the way business is conducted now-a-days is really changing and the manner that people do their work is shifting from mastering the tasks associated with a specific job to a more flexible role based on their personal set of skills and competence [1]. Consequently, more business organizations are finding ways to reinforce employee growth and contribution through various schemes such as competency based compensation and equitable sharing of income. In this global market, many companies are realizing that their people are the most critical resources and their primary source of competitive advantage.

Defining Competencies

The term "competencies" has become popular during the 1990s. Many business entities believe that competencies are the critical link in making the business strategy operational. Competence based on what David McClelland [3], a psychologist and retired Harvard professor found out in his researches can be briefly described as those behaviors that excellent performers exhibit more consistently and more effectively than average performers.

An individual competency on the other hand according to Kennedy and Dresser [2] is anything that an employee brings to a job or acquires along the way throughout a career that ultimately contributes to the success of the entire organization.

Competencies versus Skills

Given the importance of human resources to the success of an organization, it is important to develop a competency-based compensation program, rather than skill-based compensation systems. Skills, as defined by McClelland [3], are set of expertise that is behaviorally evident. A skill-based compensation systems measure and pay for an employee's ability to perform specific tasks. Competency-based compensation, on the other hand is more encompassing since it measures sets of employees' skills and their related results or outcomes under the banner of a competency [1]. The basic difference between the two is what they measure. Measuring competencies encourages employees to focus on their long term performance and to take a broad view of their jobs and their roles in the organization [1].

The competency-based compensation system is a major organizational intervention for any company. That is why, all stakeholders, from top level management down to rank-and-file personnel should be involved in this revolutionary system in order to succeed. Glenn [1] suggests a three-step process that the company could utilize to implement the competency-based compensation framework. This three-step process begins with identifying competencies within the organization based on accomplishments or accountabilities of every position. The competencies are then developed based on these accountabilities. The second step is to build the rewards frameworks, goals and guidelines. This is the step where all employees work together to determine what differentiated employees performance for each of the competencies. The last step is to conduct performance reviews where performance issues are discussed with each employee in order to assist employee to judge his or her own performance and set of objectives for the coming evaluation period. The objective of the performance review is to judge the employee's performance on a per period basis.

One of the most unique features of competency-based compensation framework is its measurement of employees' behavioral skills in addition to job competencies. This concept of having and measuring behavioral skills and competencies highlights those technical competencies that must go hand in hand with behavioral skills in order to be effective in the performance of any job [1].

Profit Sharing

Profit sharing is the oldest type of gain sharing but only recently has it attracted considerable interest as a total organization pay incentive system. Top management of various organizations has long participated in profit sharing scheme. This system has a certain underlying appeal to managers and top officials of any company since bonuses will be paid only through increased profits. Profit sharing is differentiated from productivity sharing in the manner that the former is not based on sales performance or output per hour. But the two are similar in terms of additional financial benefits provided to employees either in cash or deferred basis [5].

In many studies conducted involving profit sharing plans, numerous firms cited significant improvement in the company's performance. Top management believes that this success is due to the employees' efforts in reducing costs incurred, integration of the individual goals of the employees to that of the company and the desire of every stakeholders of the firm to earn profits since bonuses would only be paid if a profit exists. Although, a number of problems were also identified in adhering to the profit sharing scheme, e.g., the difficulty in stimulating employee participation, the reluctance of top management in sharing information, delay in the payment of the bonuses since profit is determined only at the end of the accounting period, etc.

Equitable sharing of income System's Future Prospects

Equitable sharing of income plan is just one of the many incentive systems tailored to motivate employees to raise productivity and profitability at the level of the firm. This system can be adapted by either big or small firm as well as service, manufacturing or merchandising company. Despite the fact that this methodology has received attention in many respected business periodicals, a lot has still to be discovered and learned to make this scheme really work.

Although equitable sharing of income is not currently widespread in adaptation by many companies, its use will probably increase significantly due to the following reasons: (1) the increased recognition that employees contribute significantly to company's profitability; (2) advances in technology, communication and automation redefine the number of jobs where regular incentive pay scheme adopted by the company will no longer be suitable; (3) increased global competition pushes every company to stress productivity improvement and this can only be done if employees are properly motivated; (4) the introduction of better and more flexible profit sharing measurement systems; and (5) the increasing need of every organization to utilize the creative and educational skills and competence of its work force.

Conclusion and Recommendations

The proposed frameworks in this paper if properly implemented may be able to provide the rationale in computing employee compensation and at the same time promoting productivity improvement in the work place. The two models namely, competency based compensation coupled with equitable sharing of income will be able to ensure a decent standard of living for the employees and their families that will eventually benefit the whole operations of the company in the long run due to well-motivated workforce [13].

The beneficiaries of these concepts will be the management and labor force of the various firms in particular, and the whole nation as a whole. Improvements in the productivity will lead to more benefits for the individual stakeholders including the local and national governments through taxes and the communities around the business enterprises.

These are revolutionary ideas which require information campaign, government initiatives through policy guidance. Pilot implementations among volunteer firms will be a great start. These pilot firms have to be monitored by social scientists, policy makers, educators, labor and business representatives.

Firms that will adopt the concepts must be given government incentives in the first few years of implementation. The outcome of the pilot implementation should be published, debated and discussed in public fora to elicit more ideas and improve the concepts.

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The Center for Business Research and Development (CBRD) is the research and advocacy arm of the Ramon V. del Rosario College of Business (RVRCOB) of De La Salle University (DLSU).

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