

# Proposal of a modified wage tariff scale in a forest enterprise in the Czech Republic

*Návrh řešení odměňování zaměstnanců v lesnickém podniku v ČR*

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**Abstract:** The paper analyses the pay system in a particular enterprise in the Czech Republic and proposes a change in this system. The establishment of two scales based on pay classes per month is proposed: one scale that allows for overlaps of pay classes but does not allow for overruns into other categories, and another scale that allows for no overlaps at all.

**Key words:** company, human resources, salary, monthly tariff scale

**Abstrakt:** Příspěvek se zabývá analýzou mzdového systému v konkrétním podniku v České republice a následným návrhem změny v systému odměňování. Řešení představuje vytvoření stupnice měsíčních mzdových tarifů pro 12 tříd s překrýváním, ale bez přesahu do dalších tříd a nastiňuje také možnost vytvoření stupnice měsíčních mzdových tarifů bez překrývání.

**Klíčová slova:** podnik, lidské zdroje, mzda, měsíční tarifní stupnice

The Czech Republic will be exposed to all consequences of global competition, which we already can see today due to foreign companies entering into the country showing their international expansion. Human resources hold opportunities for every organisation because employees have a strong influence on the grade of utilisation of physical resources. Clear-sighted investors understand that human resources are creative factors in a company and that not only a number of employees is a decisive factor for the success of a company. Thus, their knowledge and skills, willingness for collaboration, communication, rewarding, satisfaction at work and social security are factors that contribute substantially to the profits earned.

Employee motivation is today recognised as an important tool for achieving a firm's goals and objectives. Management practice has widely recognised this trend and theorists are usually supportive of it. A recent trend in the literature on human resource management is the proposition that skilled and educated employees are the most important resource of an enterprise in the 21<sup>st</sup> century. In order to unlock the skills and the knowledge of employees, it is necessary to consider an effective pay mechanisms and motivation techniques to keep employees attached to the company.

## AIM AND METHODOLOGY

The aim of the paper is to propose a solution for employee pay schemes in a forest enterprise in the Czech

Republic, which draws from a comparison of two scales for pay classes. The original scale was suggested to the forest enterprise in the past and had been implemented by the company in a modified form. Hence, the analysis in this paper is based on the modified scale, while using the original scale as a benchmark. Data was obtained from the forest enterprise, whose full name will be omitted in the analysis below due to a confidentiality agreement with this company. Standard Microsoft software was used for data processing.

In order to conduct the analysis and to propose a solution, academic works on human resource management in the area of agriculture were consulted. More specifically, Pošvár and Tomšík (1989), Alinče and Tomší (1999), Kolář (1983), Kocourek and Trylč (1996) have previously looked at the development and application of employee pay schemes. The related Internet resources (URL <http://www.czco.cz>) were also used.

## ANALYSIS AND DISCUSSION

### Brief characterisation of the pay system within the forest enterprise

The data, which were a basis for the analysis of the pay system, are for the period 1997 to 2001. The investigation was accomplished taking into account the particular condition of the forest enterprise, which has been operating on approximately 10 000 ha of forestland and employed over 300 staff by 31<sup>st</sup> December 2001. There are

22.5% of technical and economic staff and 77.5% of workers.

Employees of the forest enterprise are paid according to the internal pay directives of the company, which is closely related to the Czech Labour Code. The part of the pay directive that is important for the analysis are the scales that distinguish between the monthly and hourly pay classes.

### Analysis of the wage tariff scale

The following table presents monthly tariffs classes that are currently used in the forest enterprise. There are 12 monthly tariffs classes in total (1.–12.).

The first tariff class starts at 5 700 CZK, the minimal wage set by the Labour Code of 5<sup>th</sup> December 2002. Tariff classes have, as shown in Table 1, specific ranges, which allows managers to individualise pay within each class. Although this form of rewarding breaks away from the rule “the same pay for the same work”, it is argued that it allows managers to motivate or to reward particular employees, while at the same time it helps to increase the willingness to co-operate between the organisational units.

Below, in Figure 1, the information given in Table 1 is transformed into a diagram for illustrative purposes. The diagram represents the ranges and the bounds of the tariff classes. The numbers above each tariff class represent the range of each wage class in per cent, but these ranges are arbitrary because the internal pay directive has not introduced a rule on how to set the ranges of pay categories.

Figure 1 shows that the increments of the absolute ranges between the adjacent tariff classes are very irreg-

Table 1: Monthly tariffs scales

Class	Tariff (CZK)	
	from	to
1	5 700	6 950
2	5 900	7 450
3	6 200	8 250
4	6 600	9 200
5	7 000	10 000
6	7 500	11 200
7	8 100	12 100
8	8 700	13 000
9	9 400	14 000
10	10 300	15 100
11	11 400	16 800
12	12 800	18 600

ular. In percentage terms, the range of particular monthly tariff classes grow until the maximal value of 49.4% in classes 7 and 8, after which the relative increases fall again. This effect occurs, as said above, arbitrarily.

The particular tariffs classes should reflect a pay scale that grows in relation with the difficulty of the job, the level of responsibility attached to it, and the performance of the employee. Therefore, a range of classes should grow regularly and the relative representation of a range should evenly grow as well. This would mean no overruns (e.g. that an employee in class 4 has the same pay as an employee in class 8) and no overlaps (the same pay in the adjacent classes) between the pay classes. However, the pay system shown in Table 1 and in Figure 1

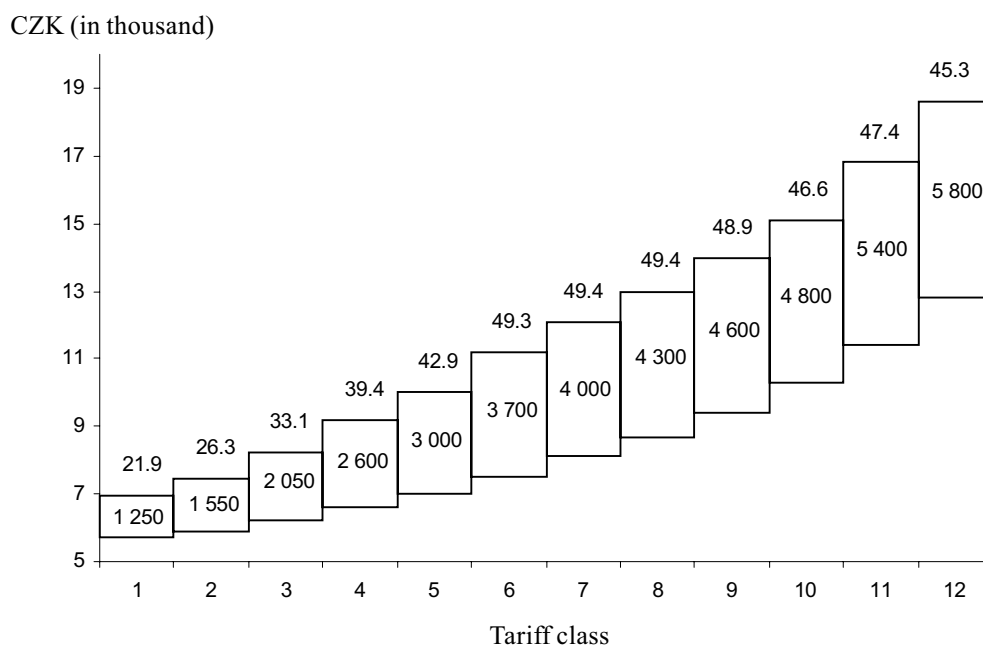


Figure 1. Diagram of pay tariffs scale

does show overruns and overlaps between the particular classes. Although, as introduced above, the current pay system intends pay individualisation for employees, motivates them to perform better or enables managers to reward different performances, the analysis conducted here concludes that the overruns and the overlaps shown in figure 1 are too big. Therefore, they give too much latitude to managers for pay individualisation, which could, in turn, have anti-motivational influences on employees.

### Proposal of a monthly pay tariffs scale with overlaps but without overruns

In the previous section, we have analysed the monthly tariff scale currently used in the forest enterprise. This scale shows a big range in particular classes, which causes significant overruns into more than just the adjacent classes: six classes produce overruns into the fourth class up.

We suggest that one possible solution is to modify the current scale, so that overruns into the distant classes will be completely avoided. This proposal of a monthly pay scale is shown in Table 2.

Table 2 shows that the proposal does not change the bounds of the former classes 1, 2 and 12. Changes of the range are introduced for classes 3 to 11. The modification of particular tariffs would be such that the overlap of classes is preserved but overruns into distant classes would be eliminated. Thus, only the overlaps of the adjacent classes will be kept. This means, for example, that the upper bound of class 1 is the lower bound of class 3, which preserves the possibility for substantial pay individualisation in each class. The ranges of each class are

Table 2: Proposal for monthly pay tariff overlaps

Class	Monthly tariff		Range (CZK)	Range (%)
	from	to		
1	5 700	6 950	1 250	21.9
2	5 900	7 450	1 550	26.3
3	6 950	8 250	1 300	18.7
4	7 540	9 200	1 660	22.0
5	8 250	10 000	1 750	21.2
6	9 200	11 200	2 000	21.7
7	10 000	12 100	2 100	21.0
8	11 200	13 000	1 800	16.1
9	12 100	14 000	1 900	15.7
10	13 000	15 100	2 100	16.2
11	14 000	16 800	2 800	20.0
12	15 100	18 600	3 500	23.2

smaller than in the former scale, with a minimum range of 15.7% and a maximum range of 26.3%. The proposed modifications of the pay system are shown in Figure 2.

Figure 2 is very similar to Figure 1, in the way that there are tariff classes and ranges of tariff classes. In absolute terms, the ranges of pay class 1 – 1 250 CZK – have been preserved, whereas the range of class 12 has been decreased to 3 500 CZK. The new ranges still allow managers to reward individual employees, even within classes. In addition, the proposed scale still breaks from the formerly established principle “the same pay for the same work”. Overall, the conclusions drawn from the analysis conducted can be applied outside the forest enterprise and outside the Czech Republic.

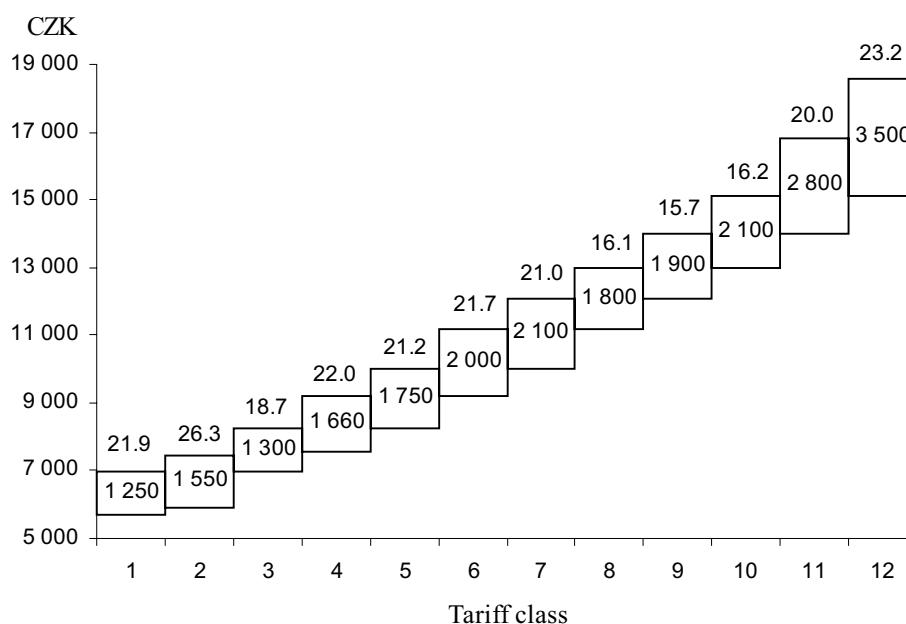


Figure 2. Proposal of monthly pay tariff scale with overlaps and without overruns

The proposed pay system is, however, still not completely balanced and the authors acknowledge, therefore, that further analysis is needed. Another possible solution should be the creation of pay tariff scale that completely eliminates overlaps and overruns. Hence, the upper bound of one class should be the lower bound of the adjacent class. Such a scale would still allow the scope for pay individualisation because the ranges of individual classes will be preserved, yet in a smaller form. Smaller ranges and no overlaps then reduce the latitude for management to 'over-individualise' and at the same time, they eliminate the danger of employee de-motivation. This is so because a person in a higher pay class will always be paid better than a person in the class below. The establishment of such a scale would, however, require a more precise definition of jobs, job responsibility and qualification of employees.

## CONCLUSION

The proposal of the modified pay system eliminates pay overruns into more distant classes. Only overlaps between the adjacent tariff classes have been kept. The ranges of the individual classes have been kept as well, but at a smaller scope. More specifically, the new ranges are from 15.7% to 26.3% or, in absolute terms, from 1 250 CZK to 3 500 CZK. The proposal enables managers to individualise pay, but eliminates possible speculations of 'over-individualisation', which could create a de-motivation effect.

Recent trends in the literature on human resource management stress the importance to recognise that human resources are expensive resources because they cause high expenditures for basic pay, insurance, education, training, social and security. Although this point of view seems to be supported by the situation in the labour

market in the Czech Republic, a decision on an investment into human resources still differs from the classical approach to investments decisions. Today, it is suitable to abandon the traditional conception where employees are only an expendable resource and to make way for a new conception, where employees are considered a resource the use of which has to be optimised. This is linked with the concept of human resource development, which should be considered as a new personnel vision, when human resource is necessary to made active, invested into and developed.

Employee rewarding, i.e. pay policy is usually considered as the most important activity in human resource management. This is so because it supports the formation of the workforce, the personal development of employees, the effectiveness, ethics, and social relationships among owners, managers and Trade Unions. This is the reason why attention should be turned to human resource management, not only in theory, but also in practice. It is under these premises that an enterprise should seek to optimise its pay system.

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