

## Research Paper

# Management of Remuneration: Anti-Corruption Aspect

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**The article deals with problems of policy-making staff salaries in order to counter corruption in the organization. We consider the agency theory that can explain the emergence of opportunistic behavior of the personnel. The direction of development of motivation for the formation of anti-corruption policy of the organizational environment is suggested.**

**Keywords:** corruption, the principal, the agent, the client, a conflict of interest, opportunism, the system of motivation and stimulation of personnel labour activity.

## MANAGEMENT OF REMUNERATION: ANTI-CORRUPTION ASPECT

Corruption is a complex phenomenon of social and economic life. In recent decades, the attention of politicians, the state-governmental activists, economists drawn to this problem. The reason for the increased interest in the problem of corruption is linked to the conflict of interest of management bodies and the private interest of a person.

The problem is actualized by staff misconduct

appearance of a conflict of interest between the employee and the employer, which has a significant impact on the motivational structure of the employees in organization. In analyzing the content of corrupt behavior of staff performs basic theory of the "principal - agent" (Jensen, Meckling, 1976), in combination with elements of the theory of "Promotion-contribution" of March and Simon (March and Simon, 1993, «Inducements-

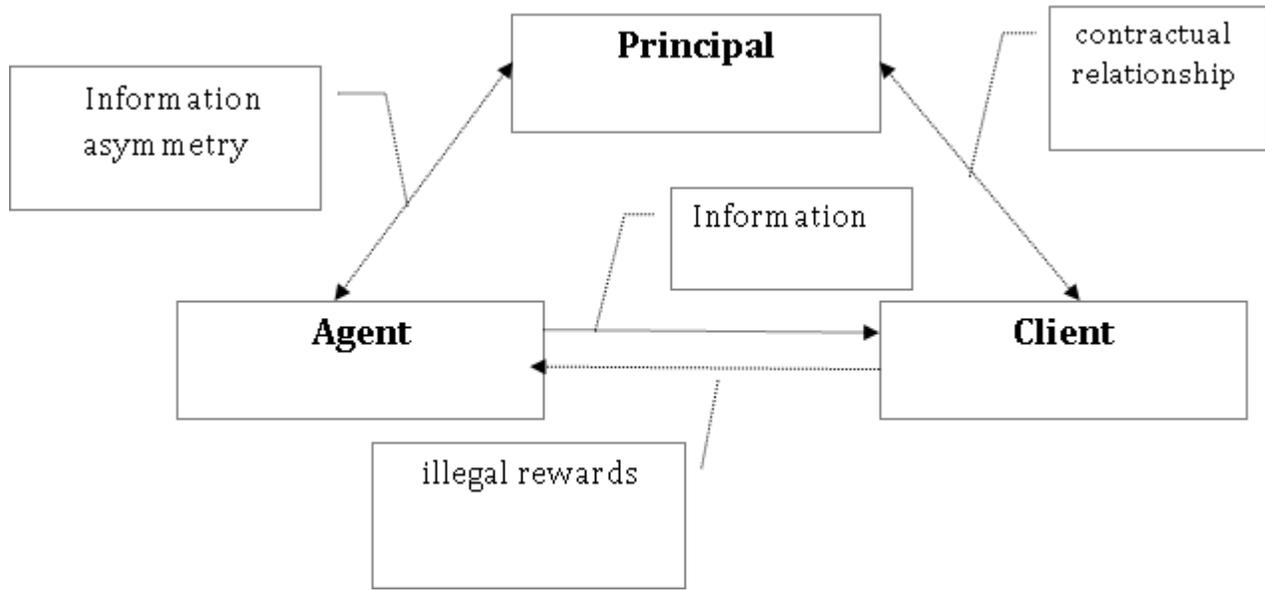


Figure 1: The system of relations "principal-agent-client" [14]

Contributions»), which analyze structural and organizational factors that help identify predisposition to corruption organization [1, p. 18-20].

According to the above theories, the researchers developed two main hypotheses. The first explains that every man shall act rationally and tries to do his maximum profit. The second hypothesis describes the relevance for the economic efficiency of the decision, but only by measuring the ratio of the results-benefits.

For the present model is peculiar that in relationships there are three characters. The central entity is the principal, then agent and the third party is client. The principal (in this case, refers to the organization itself) owns and manages the individual resources, (power, money, premises, etc.) and is going to influence in order to achieve the goals. In this connection, it signs an agreement with the agent. Under this agreement, the principal develops goals that must be implemented by the agent during the negotiation process with the various external clients (such as supply chain partners or other stakeholders).

Principal delegates some of his powers to allocate resources to achieve these goals; determine the remuneration of the agent to achieve its objectives; he

prescribes penalties for violations of an agreement by agent. Under the same agreement, the agent is obliged: to work for the achievement of the principal; use referred to him and the principal resources belonging solely to achieve certain objectives of the principal and establish a process of interaction with the client.

The agent, who is prone to corruption, increases the chances of the client to get a deal, even if it offers not the best deal for the organization. During the negotiations, the client may try to influence the agent by the payment of individual tangible and intangible rewards. This agreement will be realized at inflated prices, and in some cases with the presence of a bad or defective product (services) that causes financial harm the organization itself (Figure 1).

According to the model of "principal-agent-client", corrupt behavior of agent is recognized this kind of opportunistic behavior of the agent, in which the latter uses the resources of the principal that are not to solve the problems of the principal, and to achieve his/her own goals. And as a consequence, acts of corruption agents reduce the effectiveness of solving tasks for the principal. This definition implies that the corrupt practices are associated with the agent of the principal objectives

of treason and theft of its resources as a result of intentional hidden impact of the economic agent, based on the use of the information advantage and focused on the achievement of personal interest to the detriment of the other parties of the agreement. [2]

In theory, for the success of the whole mechanism it is necessary to define clearly and configure all of these elements of the system. Failure in one of the elements in most cases leads to substantial violations of the entire mechanism. A significant set of measures and actions of anti-corruption strategy should be focused on anti-corruption setting conditions and methods of organizing relations between the principal, the agent and the customer on the basis of the implementation of the mechanism of motivation and stimulation of personnel labour activity in the organization.

To warn corruption means to create the motivation for companies to behave responsibly, to comply with regulations and to address the causes of corruption before the illegal acts are committed. It is necessary to implement preventive measures.

The financial crisis has contributed to the fact that business leaders have implemented a number of measures aimed at optimizing the management processes and the majority of economic processes. In the current competitive environment in the economy and in the sharp increase in the level of social tension in society, leaders of industrial organizations need to deploy personnel prevention technologies of organizational, social and labor conflicts and conflicts of interest [3, 4, 5].

The practice of anti-crisis measures showed that the main objects of optimization became processes related to human resource management; in particular, it has had a significant impact on the system of remuneration of staff.

It was not without reason, as compensation of employees is one of the biggest cost items of businesses and owners are seeking a management tool of this item, knowing where are the levers of optimization and the potential impact on the effectiveness of the activities of employees. In this regard, there is a

significant disparity in salary levels; high levels of poverty among workers of industrial production; opacity and asymmetry of labor relations; opportunistic behavior of personnel, which leads to corruption; weak incentives to invest in human capital and consequently low levels of productivity.

Most researchers emphasize the seriousness of the problem of payment of workers of industrial enterprises. So, as the most pressing problems are discussed following [6, p. 7]:

- There are no rules and criteria for the differentiation of salary levels for executives of one level of management and specialists of different qualification categories, workers of various professions;
- Tariff system and the scheme of salaries is constructed so that professionals engaged in the same complexity and level of responsibility and a job with a comparable level of qualification, may receive substantially differentiated the amount of salary. Often there are circumstances under which tariff rates of the same profession and the same rank are different shops and sites (with a comparable level of complexity of the work) without justification reasons for differentiation. The level of wages often corresponds to the formal name of the position and not do the work;
- In the structure of the income of workers is often a lot of bonuses and allowances that reduce the transparency of the system of remuneration, and the nature of co-payments and bonuses has the nature "to reach" to the required level of remuneration and does not stimulate the achievement of high results of work;
- There are not developed regulations for the establishment and modification of salaries, making wage system opaque and leads to a violation of the principles of planning and distribution of payroll;
- There is not of a promotional nature of the variable remuneration in the bonus, and it does not form a mechanism to influence the behavior of industrial workers, the bonus is perceived by most of the workers as a permanent component of the income, while the base is responsible for the payment of performance of

official duties, and not to achieve the required results of work ;

- Most of the indicators for bonuses are not linked to the responsibility of the employee and lead to situations in which there is no individual responsibility for the implementation of work efficiency;

- Local regulations on wages are only formal and do not determine the mechanisms for managing fixed and variable parts of remuneration, for ordinary workers the existing system of remuneration is not clear.

Unjustified differentiation of wages by professional qualification groups and categories of workers currently occurs in most domestic enterprises. The ratio of revenues and 20% of the least well-off 20% of the population in 2009 was equal to 5.6 times; in 2010 - 7.6 times; in 2011 - 9.7 times. It may be noted that in Japan, the income gap in similar groups is only 6 times, in Germany - 7 times, and in the United States the figure is 14 [6].

Russian Center for Living Standards [7] under the direction of prof. V. N. Bobkov was for many years engaged in the problems of determining of decent wages. Social standards of wages are laid in the basis of the organization of the guaranteed salary of personnel. According to prof. V. N. Bobkov, social standard wage is a guaranteed minimum wage of employee in profile trade industry, justified by his reproductive value of the minimum consumer budget (RMCB).

RMCB, the expenditure of which is developed on the basis of norms of consumption of goods and services by worker, a certain type of work (mental or physical) and creates a certain gravity and tension in pricing and tariffs, region of residence, and standards of not consumer spending. Group severity and intensity of the employee profile trade is determined on the basis of class conditions of his labor, the results of certification of workplaces and reflects the characteristics of the labor process, affecting the musculoskeletal system and functional systems of the body, as well as the central nervous system, sense organs and emotional the scope of the employee [8, p. 155]. Along with the above factors in VMPB are taken into account the complexity of the

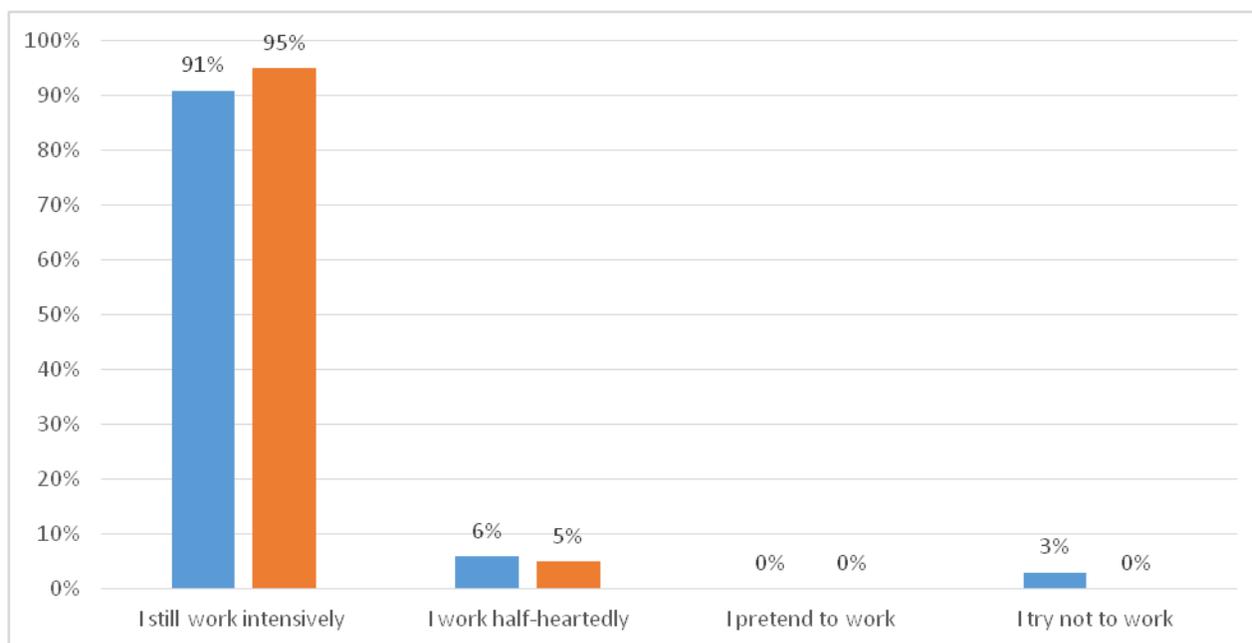
work and skills of workers as well as factors related to the process of reproduction of the family. The complexity of the work performed determines qualification requirements for workers of profile profession in industry. Difficult work that is possible thanks to the additional cost of obtaining of proper qualifications, is more productive and creates in equal amount of time a greater value than less skilled, and allows to pay the costs of obtaining qualifications. Factors of reproduction of the family are expressed in the form of additional costs and requirements of additional income of employees that are required to create a family, and the content of minor children [8].

Thus, the minimum consumer reproductive budget of workers of basic profession, drawn up with taking into account the complexity of the work they do and their qualifications, as well as taking into account the factors of the reproduction of the family, should be the basis for calculating the minimum cost on a process of reproduction of the labor force, including the cost of the minimum guaranteed wages.

Specialists of the Academy of Labour and Social Affairs identified the minimum value of the reproduction, which is about 20 - 22 thousand. rub. in a month; the calculation was made taking into account the cost of workers for food, non-food products and services, savings on replacement of dilapidated equipment, the additional costs of education and health services in connection with the commercialization of these industries on life support.

Academician D. S. Lvov says that if business leaders brought the minimum wage up to this line, they would get a huge domestic demand for goods and services - about 10 trillion rubles. in a year. And all this are investments in the economy, without which it is meaningless to talk of doubling the GDP and the growth of welfare of the people. [9]

Based on the statistics and the analysis of actual enterprise data collected by the author [10, 15, 16] for 2007 – 2012 was assessed organizational environment in a number of industrial enterprises of Samara city. Companies of industrial complex of the



**Figure 2:** Distribution of answers to the question "If behind you is no control, what will you undertake?"; %

Samara region provide 248.0 thousand jobs, or 22.2% of the number of employed in the economy (without external employees).

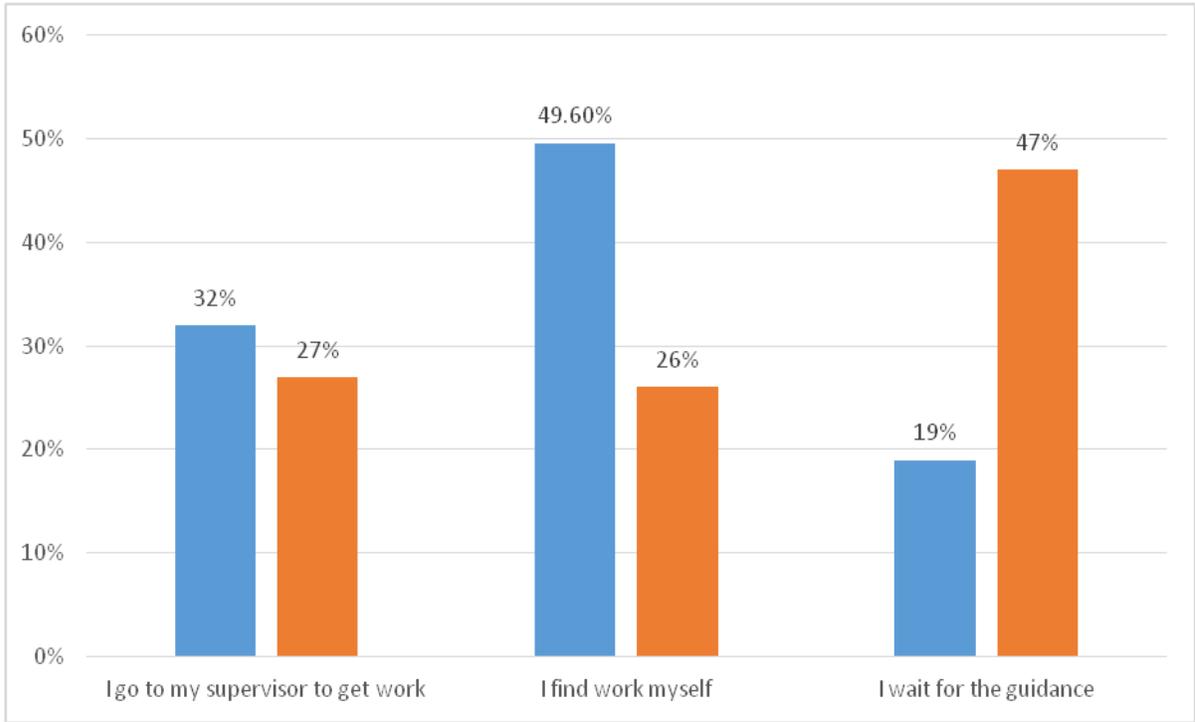
In comparison with 2012 there was a slight increase in employees by 0.9% mainly due to the increase in the number of employees by 3.7% in the production of vehicles and equipment by 1.7% in the extraction of fuel and energy minerals. For other types of industrial activity is observed reduction in the number of employees, the most significant in the production of rubber and plastic products (by 5.7%) and manufacture of electrical and optical equipment (5.1%). Average monthly wage of employees of the organization for the industry in 2013 amounted to 27,297 rubles (108.7% to the level of 2012, 116.5% of the average regional level) [13].

In the current conditions of functioning of enterprises and organizations system of stimulation and motivation of work is in undergoing significant change. Most organizations, denying the accountant tariff-wage system, are constantly experimenting, changing the ratio of basic and additional wages, conditions of payment of bonuses, the composition of the social security benefits

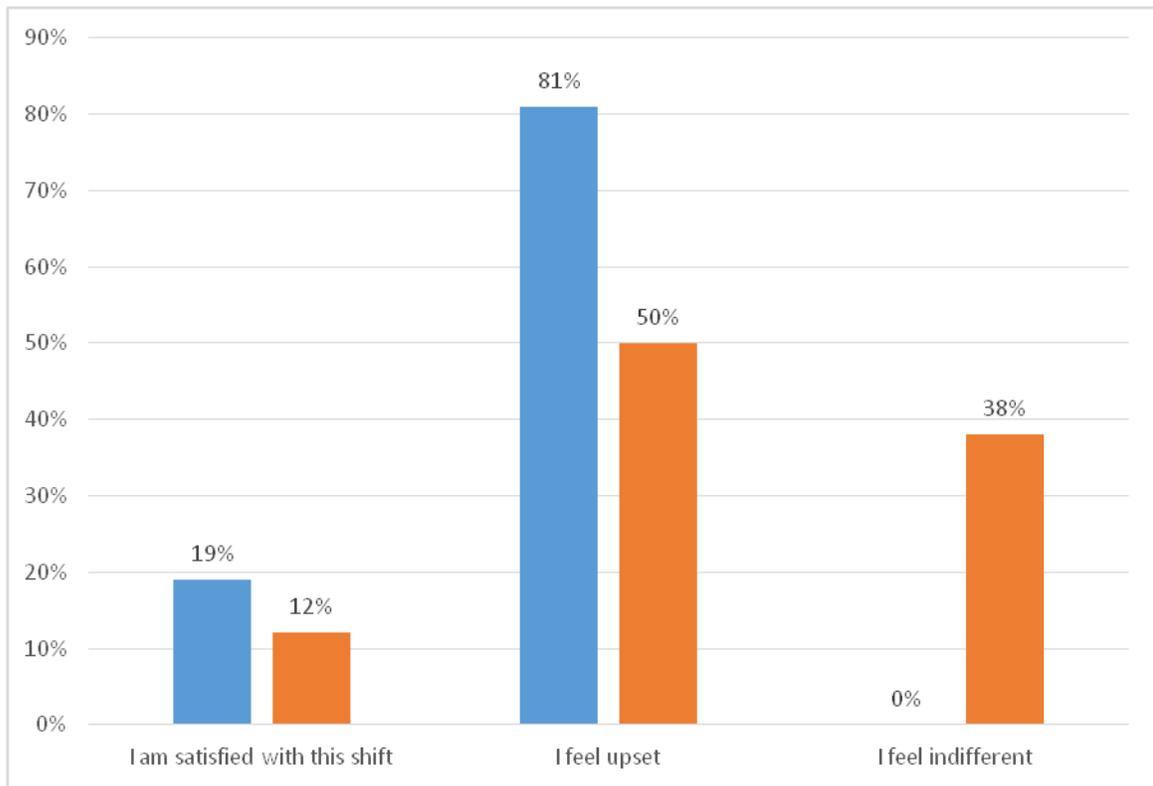
of workers, introducing various forms of non-financial incentives. However, the accountant imperfections of tariff system go into "progressive" system of workfare personnel and become instigators of occurrence of opportunistic behavior of employees. To detect this behavior of workers and time-workers authors conducted a survey of workers of two factories engaged in the production of the main units, the sample was 50 people. The survey results are shown in Figures 2-6.

The survey results revealed that if a shift the work ends, then from 19 to 47% of the respondents without no guidance of leader will not do anything. If during the shift was no any work, then there are happy with this situation at least 10% and a maximum of 19% respondents, with an average of one in four of workers is indifferent to this situation, which is from 19 to 50% of these workers. The study showed that the organizational environment of industrial enterprises in the minds of the workers and time-workers observe the process of alienation of labor, which significantly affects the increase in labor productivity.

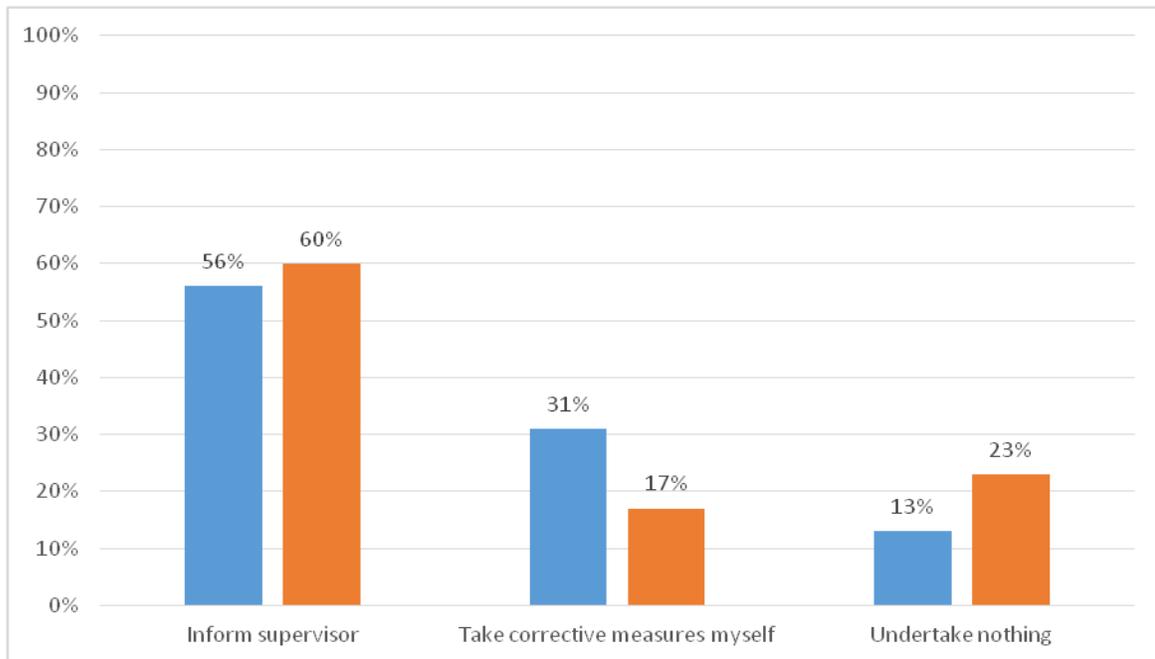
Most industrial companies are characterized with trends that suggest that modern production is based on



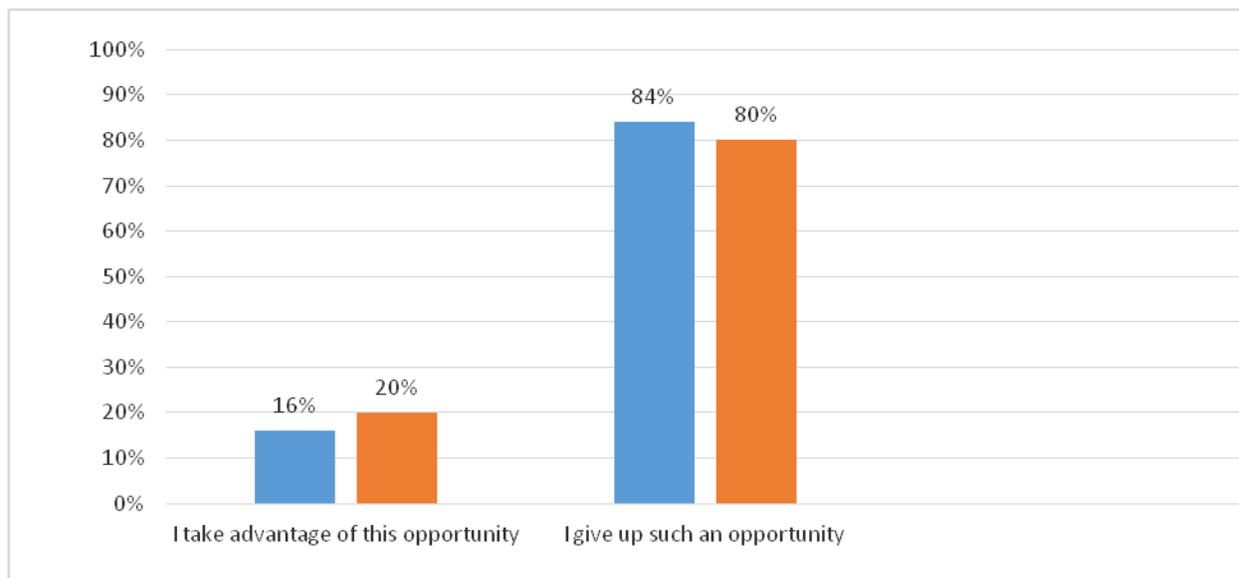
**Figure 3:** Distribution of answers to the question "If your shift work is over, what you will undertake?"; %



**Figure 4:** Distribution of answers to the question "If the shift was empty, almost without a job, how do you feel?"; %



**Figure 5:** Distribution of answers to the question "If you know the reason why the work of the working-piece workers can stop, how do you do?"; %



**Figure 6:** Distribution of answers to the question "When you will be able to be late for work, what will you do?"; %

the highly qualified kinds of work requiring employees of high intelligence, initiative, mobility and creativity. The situation requires for a more advanced intra-system of motivation and stimulation of the personnel aimed at

increasing interest and highly qualified employees. The more skilled labor is, the less it is susceptible to external regulation and stimulation methods. Consequently, the system of incentives and motivation of personnel should

work for strengthening of internal interest of workers in the labor process and encourage the development of their working potential.

In order to create an anti-corruption organizational environment and counteraction to corrupt behavior of personnel it is necessary to carry out the selection of staff based on the competence approach, taking into account the current structure of the motivation to hire workers; to create such conditions of the organizational environment which would provide safeguards to ensure a decent living of workers; track and monitor personnel propensity to corrupt behavior; train employees to increase their awareness of the methods of counteraction and fight against corruption.

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