

The essence of fair remuneration in the light of new concepts of human capital management of an employees of the company

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Abstract

In the following article the author discusses the basic terminology used to understand the concept of fair remuneration. It will address issues such as capital, human capital and the history of their creation, as well as the perception and distribution of remuneration by type and function. Particular attention is paid to fair remuneration and ways of increasing an employee's human capital.

Keywords: *Economy; Fair Remuneration; Human Capital; Labor; Remuneration.*

1. Introduction

The concepts of human capital and fair remuneration are very well known today. More and more people are raising this issue, wondering whether they are fairly rewarded for their skills, education, contribution and work in the workplace. Capital, human capital and economics form the basis of the following issues. They have a major impact on the development of the concept of fair remuneration. It will be described what the person concerned should do to contribute to the expansion of their human capital, explaining why it is important for them and their environment.

2. Human capital as the basis of labor economics

2.1. Human capital

Currently, there is a noticeable interest of the employer in the broadly understood competences of the employee, which may be useful for the employer and bring benefits to the organization. These competences include, among others, abilities and predispositions, training and knowledge, practical experience as well as skills, not forgetting the health or mental condition of the employee. These characteristics, plus character and personality traits, create capital that can be different for each person (Oleksyn, 2008, p. 44). Alternatively, human capital may be called human resources or work potential. Regardless of the name, however, it means one and the same thing, namely, that is using and developing them in the development goal of oneself, but also in the aim of achieving the benefit to the employer and his organization. Human potential is understood primarily as a set of possibilities, abilities and motivations that every human being, and therefore every organization, has. It is claimed that it is people who are the company's most valuable resource because they are their strategic resource. They have the opportunity to learn and improve their potential continuously, they are distinguished by their creative and conceptual thinking, which allows them to see the opportunities, but also the threats both inside and outside the company, using the opportunities and reducing the threats. The effectiveness of a company depends mainly on the productivity of its employees, that is, on their education, practical skills, values and motivation (Gołębiowska, 2005, p. 9).

Human capital is a very valuable resource in an organization. Already in the 1960s the concept of capital and investment started to be combined. Employers treat their employees as investments that can contribute to the growth and development of their company and increase competitiveness. Employees invest in themselves, in their education to improve their knowledge, in the acquisition of skills, so that this can result in higher productivity in the workplace and higher wages in the future (Król & Ludwiczynski, 2006, p. 52).

2.2. History of labor economics

William Petty, a 17th century economist who claimed that people are capital, also influenced the development of the concept of economics. His views focused primarily on the theory of the wealth of nations. He mentioned work, land, professional skills and resources as factors that have a major impact on production efficiency. He also tried to explain the link between work and land. He claimed, for example, that the daily maintenance of a worker is related to the value of the land and the work needed to produce it. The concept of wage theory can

also be seen here, which in this case is the minimum cost that will allow you to survive and maintain yourself and your family. (Stankiewicz, 1998, p. 151 – 153).

The concept of labour economics was influenced by Adam Smith, among others. This great philosopher of the 18th century, in the work for which he is best known - "An Inquiry into the Nature and Causes of the Wealth of Nations" from 1776, raised such issues as theories of capital and theories of pay. He wrote that "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities, but of their advantages" (Smith, 2015, p. 21 – 22).

It can be understood that competition arises where many people act in similar interests and motivations. Smith was primarily concerned with finding ways to enrich the nation. Above all, he saw an opportunity in work, so he offered to divide it into productive and non-productive. The productive one concerned the provision of services which, in his opinion, do not affect the enrichment of the nation; the non-productive one can include activities which result in material goods. However, this proposal did not win many supporters because it suggested that many service providers could lose their jobs (Stankiewicz, 1998, p. 159 – 160).

Smith's theory of value presents his view on the exchange of goods, creating value, prices and income. Value can be understood as a value in use and exchange, which influenced the value theory based mainly on work. The philosopher explains this by the fact that from the beginning of the world it was work that was the price to pay. This is the foundation of another Adam Smith theorem, namely that it is pay, pension and profit that are the main sources of the nation's enrichment, and that value creation, apart from work is also influenced by capital and land. The theory of capital is primarily based on the accumulation of one's own products, which will later lead to their exchange for other people's products, so the requirement is that they are first put aside and accumulated in capital (Stankiewicz, 1998, p. 160 – 162). David Ricardo also contributed a little to the development of this concept. An important role is played by the theory of pay, in which Ricardo stated that work is a commodity, its price is pay, and the labour market determines demand and supply. He also considers what the price of work is. He believes, like his friend Thomas Robert Malthus, another economist, that the price of work is the maintenance of the worker. However, as the price rises because of the need to maintain a society that is gradually growing, additional resources are required, which requires additional work and capital (Stankiewicz, 1998, p. 165 – 169).

John Maynard Keynes, the creator of Keynesianism, spoke about work in his works, and mainly focused on unemployment. He disagreed with the statement that there is voluntary or temporary unemployment. In his opinion, there was forced unemployment, arising in a situation when employment does not change, but the demand for a given production is growing. He disagreed with Pigou, who in his work pointed out the possibilities of increasing employment with a reduction in wages. According to Keynes, it is the size of employment that influences the level of real wages (Stankiewicz, 1998, p. 368 – 368, 380 – 381).

3. The essence of fair remuneration

3.1. Functions, structure and distribution of remuneration

Pay is a mandatory payment paid to the employee for the activity performed for the employer. In such a case, it is work performed under an employment relationship. This is described in more detail in the Labour Code in Article 22: By entering into an employment relationship, the employee undertakes to perform work of a certain kind for and under the direction of the employer and at a place and time determined by the employer, and the employer to employ the employee for remuneration" (Kodeks pracy, 1974, art. 22). This is the so-called subordination of the employee to the employer, which in particular distinguishes the employment relationship in question from civil law relationships. The employer is therefore obliged to pay the employee, who in turn cannot waive his right to remuneration. This is a principle from which there are no exceptions (Kodeks pracy, 1974, art. 84). The employer is obliged to determine the amount, as well as the terms and conditions of remuneration and other benefits in the collective agreement, and if there is no such agreement in a company with less than 50 employees and more than 20 employees, the employer must itself define them in the payroll regulations (Kodeks pracy, 1974, art. 77). In the remuneration structure, the components can be listed below. The Central Statistical Office (Polish abbreviation - GUS), defines what constitutes wide and narrow remuneration. Narrow otherwise traditional, it is divided into personal remuneration and impersonal remuneration.

Personal permanent remuneration, usually referred to as salary, as well as allowances, jubilee bonuses, deputies, retirement and disability severance pay, compensation benefits and others may be included. They are of a permanent character because their amount does not result from the effects of human work, but depends on the position in which he works, i.e. what kind of work he does, what qualifications he has, knowledge and character traits. It is also influenced by the financial and economic situation in which the company finds itself.

Remuneration that is variable is affected by the effects of individual or team work and, as the name suggests, these effects cannot always be the same, so remuneration changes. The main purpose of this type of remuneration is to motivate employees to continuously improve and improve the effects of work, through short-term and long-term incentives. The former include bonuses, commissions, piecework surpluses, profit-sharing, rewards, but also the so-called thirteenth salary - these depend on the effects of work for less than one year. The latter include salaries that are influenced by the company's activities and cover a period of more than one year.

Impersonal remuneration includes, among other things, remuneration for contracts of mandate and contracts for specific work as well as for participation in supervisory boards, committees or scientific councils. Other types of fees are those paid, for example, for the use of copyright or related rights.

The fixed remuneration together with the short-term incentives gives a total cash remuneration and the cumulative incentives constitute performance remuneration. The remuneration increased by additional benefits, such as insurance, tramps, medical services, company telephone or computer is called material remuneration or income from work. Another concept is total remuneration, to which, in addition to the components mentioned above, there is an intangible, discretionary remuneration, which can be understood as various types of awards, recognition of merit and achievements, internships or training in other entities (Borkowska, 2012, p. 16 – 22).

There are many types of remuneration. One of the most important is the already mentioned remuneration for work, in other words for the work actually done, for its quality, quantity. The second is remuneration that is not directly influenced by the work, such as apprenticeship allowances. The recipient distinguishes between individual remuneration, which a certain person receives, for personal contribution, and group remuneration, which is directed, as the name indicates, to a larger group of employees, on which depends how it is shared, and this is for example a bonus. A payment made in cash or cash equivalents is a form of financial remuneration, while non-financial remuneration is usually paid in non-cash form. As far as the timing of payment is concerned, current salaries are paid continuously and systematically, mainly over short periods. Deferred payments can be made once at very rare intervals, for example once a year or for several years. Although most often an employee does not have a choice of what form of remuneration he or she receives, as he or she usually receives

cash, there has been a recent trend in the selection of benefits that can be exchanged up to a certain amount. Contingent wages are a predetermined payment for the performance of certain tasks that the employee is not aware of at the discretionary wage, because it is not up to him. Finally, there are also secret and open salaries. Nowadays, the former is used because it is the only option to be able to maintain the privacy of the employee, unfortunately, in some situations it is impossible to avoid it, for example by handing out a prize, so then it is open to the public (Pawlak & Smoleń, 2012, p. 88 – 89).

It is also worth remembering about the nominal and real wages as well as gross and net. The former refers to the monetary remuneration received at a specific time for employment, while the latter shows how much goods and services could be purchased by the employee for them. Gross pay is the amount not less than the mandatory fees, contributions, taxes the employee has to pay, and net is the amount after they are paid (Borkowska, 2012, p. 22 – 23).

It has been assumed that remuneration is divided into income, cost, social and incentive functions, which are called classic functions (Borkowska, 2012, p. 28 – 32).

Remuneration in an income function plays an important role, since in most cases it is the only source of income that allows to maintain and meet the various needs of the employee and his dependants. The amount of remuneration is particularly important, as it should be appropriately matched to the commitment and efficiency of the employed person. It is important for the employee as well as for the employer, because an employee who feels that he does not earn as much as he deserves can quickly change his workplace.

The opposite of the income function is the cost function, because when the salary is an income for the employee, it is a cost for the employer that he would like to reduce. The authorities of a company agree to higher salaries if the employee who receives them contributes significantly to profits, if not, his salary is even more perceived as a cost.

The social function is responsible for the atmosphere in the company. It ensures that there is mutual respect and trust in each other's colleagues, both professionally and personally. This function is also responsible for ensuring that an employee does not receive less than the minimum wage or other pay than that received by another employee in the same position. It therefore ensures that there are no tensions between employees or conflicts over remuneration. In poor societies and in difficult life situations, this function seeks to ensure that every person, regardless of their job or position, has a chance to survive.

The next function, namely motivational, is to motivate the employee to work more carefully, to make greater efforts in the performance of the job, to broaden his knowledge and skills so that he can better perform his duties and, over time, hold increasingly higher positions. The employer, of course, benefits from this, which is proven by the better performance of the company, but also the employee, because as a rule, in order to motivate him and keep him in the organization, the management just raises this salary (Borkowska, 2012, p. 28 – 32).

3.2. Human capital and its basic models

Adequate calculation of human capital helps to establish fair remuneration, which is a percentage of the human capital. The human capital model is aimed at the employee as if he or she were a person seeking development. Therefore, investment in employees should be made because they are a valuable part of any organisation. The human capital model starts with the general capital model. There are many formulas used to calculate human capital, depending on what is taken into account. Understanding the following formulas and their relationships will enable the reader to get deeper into the essence of human capital and the fair remuneration it leads to (Renkas, 2017) Basic models:

- 1) The model of a person without any work experience and professional education is as follows:

$$H(k, p, t) = K$$

- 2) A model showing the process of human capital formation, which is accompanied by professional education:

$$H(k, e, p, t, l) = K + E$$

- 3) A model that takes into account the professional experience acquired:

$$H(k, e, T, p, t, l, w) = (K + E) \times [1 + Q(T)]$$

Alternatively:

$$H(k, e, T, p, t, l, w) = K + E + D(T)$$

Meaning of the symbols:

K - capitalised maintenance costs,

E - capitalised education costs,

Q(T) - a factor for increasing professional experience, over T years,

D(T) - value of capital from professional experience, over T years,

T - years of work, $T > 1$.

3.3. The concept of fair remuneration

The concepts of fair and equitable remuneration have often been, but are also constantly being, addressed. What is fair pay? Fairness is most often associated with the equal distribution of something, and the awareness of its presence leads to the creation of trust and increased motivation to work, and therefore efficiency (Borkowska, 1999, p. 19 – 20, 23).

The Labour Code contains issues that defend workers' rights. The most important issue is Article 13, which reads as follows: "An employee has the right to fair remuneration for work. The conditions for the implementation of this right are determined by the provisions of labour law and state policy in the field of wages, in particular by setting a minimum wage for work" (Kodeks pracy, art. 13). It implies that the main aim and purpose of decent pay is to prevent wage inequalities, so that poverty and discrimination do not occur. Such remuneration should ensure a decent lifestyle, to the extent that it covers the material, cultural and social needs generally perceived by people. It is important, however, that these definitions should emphasise that the aim is to meet basic needs, and later on, educational or social needs (Borkowska, 1999, p. 30). The level of fair remuneration depends on the country and on the level of poverty in that country.

The amount of the minimum wage is set by the state authorities and has to be accepted by employers, while the fair wage is accepted by them voluntarily. The fair wage is higher than the national minimum. It is based on the costs incurred in maintaining workers with their families, enabling them to function in local conditions. Its task is to cover the costs related to basic human needs, such as food, health care, housing, clothing, providing appropriate education and others that ensure a good standard of living for the employee and his/her family. Fair pay is a very important concept, which affects not only the living of employees, and therefore reducing poverty, but also the environmental aspect. It is claimed that people who earn more money do not have to use old cars that produce more exhaust fumes, but newer cars that are environmentally friendly, the same applies to old furnaces or forest cutting (Pabian, 2017, p. 8 – 9).

However, it should be noted that a decent standard of living cannot be interpreted in the same way for all people around the world. It depends on the costs incurred for an adequate standard of living in a given environment. It depends primarily on prices, whether a person can afford a good standard or not, and because prices vary from country to country, a decent wage also changes.

Below are presented formulas allowing to calculate the value of fair remuneration, depending on the previously presented human capital models. Each of the previously mentioned models multiplied by the economic constant p (8% [1/year]) gives the salary model (Renkas, 2013 p. 29-42., Renkas, 2017, p. 6).

Presented salary models give an annual value (Renkas, 2016). When divided by 12, the monthly fair wage will arise:

- 1) A model of a person with no work experience and professional education:

$$W = K \times 0,08$$

- 2) A model that takes into account education:

$$W = (K + E) \times 0,08$$

- 3) A model that takes into account professional experience:

$$W = (K + E) \times [1 + Q(T)] \times 0,08$$

Meaning of the symbols:

K - capitalised maintenance costs,

E - capitalised education costs,

Q(T) - a factor for increasing professional experience, over T years,

T - years of work, $T > 1$.

4. Determining human capital and fair pay for the model employee

Having analysed and discussed in previous chapters the history of the creation and development of capital and human capital, as well as the concepts of remuneration and fair remuneration, and having analysed the principles to be used in calculating the values for these concepts, the author of the paper will present how to calculate human capital and fair remuneration with an example.

The model person "X" is currently 30 years old. In addition to her higher education, which lasted five years, she has gained experience in the profession, obtaining a six-year internship.

Therefore, the following calculations will require the age of the employee, education, years worked in the profession. In addition, the cost of living, which consists of expenses for food, maintenance and use of the apartment, various types of bills, like electricity, transport, car maintenance, as well as clothes and shoes. The amount of costs incurred for education and the level of the learning rate will also be needed.

In addition, the following assumptions have been made for the calculations below:

- For the number e (Euler's mathematical constant) an approximation of 2.7183 has been assumed.
- The cost of living was assumed to be 930 PLN per month, with the cost of living determined at the social minimum.
- The cost of education is 400 PLN per month.
- The learning factor was assumed to be 0.1.
- Constant potential growth p assumed at the level of 0.08(1/year).

Employee "X" has not only higher education, but also had the opportunity to use the acquired skills and knowledge in practice, that is at work. A model worker "X" is 19 years old when he starts his studies, and 24 years old when he starts working in his profession, which shows that in the following calculation of his human capital he is 30. First, however, the capitalised costs of living, education costs and the experience growth factor should be calculated using formulas (Woźniak & Dobija, 2019, p. 134):

$$K = k \times 12 \times \frac{e^{p \times t} - 1}{p}$$

$$E = e \times 12 \times \frac{e^{p \times l} - 1}{p}$$

$$Q(T) = 1 - T^{\frac{\ln(1-w)}{\ln 2}}$$

Meaning of the symbols:

K - capitalised maintenance costs,

k - monthly maintenance costs,

t - the variable of the passage of time,

p - constant potential growth,

e - Euler's mathematical constant,

E - education costs,

e - monthly education costs,

l - years of vocational training,

Q(T) - experience growth factor,
w - learning rate,
T - years of work, T > 1.

The table below contains the data needed to calculate human capital and fair remuneration:

Table 1: The Data Needed to Calculate Human Capital and Fair Remuneration

Data to be taken into account	Assigned value
Age of the employee	30 (years)
Education	Master's degree (5 years)
Length of employment	6 (years)
Annual maintenance costs	PLN 11 160
Monthly maintenance costs	PLN 930
Annual education costs	PLN 4 800
Monthly education costs	PLN 400
Learning factor	0,1

After the data is provided:

$$K = 930 \times 12 \times \frac{2,7183^{0,08 \times 24} - 1}{0,08} = 812\,035,92 \text{ PLN}$$

$$E = 400 \times 12 \times \frac{2,7183^{0,08 \times 5} - 1}{0,08} = 29\,509,72 \text{ PLN}$$

$$Q(T) = 1 - 6 \frac{\ln(1-0,1)}{\ln 2} = 0,24$$

Taking into account the previous calculations, the human capital model of the model person "X" can be calculated:

$$H(k, e, T, p, t, l, w) = (K + E) \times [1 + Q(T)] = (812\,035,92 \text{ PLN} + 29\,509,72 \text{ PLN}) \times (1 + 0,24) = 1\,043\,516,59 \text{ PLN}$$

A person "X", who, as it has already been described, thanks to higher education and several years of professional practice, achieved human capital at the level of $H(k, e, T, p, t, l, w) = (K + E) \times [1 + Q(T)] = 1\,043\,516,59 \text{ PLN}$.

For such data, the fair remuneration for the whole year will take the value:

$$W = (K + E) \times [1 + Q(T)] \times 0,08$$

$$W = 1\,043\,516,59 \text{ PLN} \times 0,08 = 83\,481,32 \text{ PLN}$$

The monthly fair remuneration of such an employee will therefore equal:

$$83\,481,32 \text{ PLN} / 12 = 6\,956,78 \text{ PLN}$$

5. Conclusion

As it appears from the discussed content, human capital is the most valuable resource in a company. It has a significant impact on further activities of the company, setting their direction for development or failure. It shows how important it is to invest in human capital, taking care of employee's health in the same way as knowledge and experience. In this case, various training courses to improve employees' professional qualifications become necessary.

It was also presented that a fair remuneration should be in such an amount as to ensure a decent life for the employee and his or her family. Its amount depends primarily on human capital. An example of calculating human capital and fair pay gives an overview of the factors involved. It can be assumed that the more training, knowledge and experience a person receives, the greater the value of human capital and fair pay will become.

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