

# EMPLOYEES' VALUE REFLECTED IN THE INCOME FROM SALARY NEGOTIATION STRATEGY

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**Abstract:** *The information technology allows today the job seekers to access information not only about the job, but also about the working conditions offered. This option allows the employee to choose the job offers that better meet their needs. The companies seeking for the best employees and trying to keep them inside are offering important compensations apart of the salary. Nevertheless, most of them are aware that their employees are the most valuable intangible asset of the company and are treating them accordingly. In this context, the paper is willing to present what is the employees' value for the companies, to analyze three strategies for the income from salary negotiation based on the literature, to describe the negotiation framework and to propose a conceptual framework for the negotiation strategy.*

**Keywords:** *employees' value; income from salary; compensations; negotiation strategy*

**JEL Classification:** E24, J21, A13, O15, J33, M12, M52

## 1. Introduction

The business world is facing a new labor market paradigm that puts pressure on companies (Finkelstein, 2018), briefly characterized by:

- Unemployment is near an all-time low. A low unemployment rate means a lower supply of workers which means it's harder for companies to hire workers.

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- Workplace transparency is at an all-time high. This puts exceedingly more pressure on companies actually being a great place to work and treating people well is now table stakes.
- Personal computing power is at an all-time high and accelerating. The ultimate goal of any company is to create profit by fighting for markets or market niches with competitors. The company's success lies in the quality-value-loyalty chain (Parasuraman & Grewal, 2000), which combines at least the technology used, the customer satisfaction and the value of the staff.
- However, the new battlefield is as much for talented people as it is for key customers. Companies need to apply the same rigor to people management as they do to customer management (Michaels et al., 2001).

The value of the human resources is the most powerful factor in differentiating the competitive advantage of companies. "People are definitely a company's greatest asset. It doesn't make any difference whether the product is cars or cosmetics. A company is only as good as the people it keeps." (Mary Kay Ash, 1984). The employees' value is an intangible asset that contributes to the value of the company and to the profit. "The most valuable asset of a 21st-century institution, whether business or non-business, will be its knowledge workers and their productivity" (Drucker, 2013). The employees are encouraged to continuously learn, to apply and develop their knowledge, by means of developing their innovation and conception competences (Dragomir, C., 2017, p. 33)

Many companies, especially multinationals, say the value of employees is a priority in management and introduced the concept of *proposition of value*. The term "employee value proposition" properly puts the burden on the company to develop a proposition of value to the people it needs (Wagner, 2017). In fact, this is a management strategy that manages employees at different levels of the company. An employee's value proposition is nothing but the sum total of the offerings a company offers to its prospective and current employees so as to elicit their best efforts. It is the totality of tools that employers implement to be able to attract, retain, engage and develop employees (Sushman, 2017).

The changes in the labor market switching from the employers' power to the power of employees, and unemployment reduction, on the other hand, make companies change their selection and recruitment strategy with costs

as low as possible (Stefanescu, 2017, 17). The candidates and employees, on the other hand, will need to accumulate wage and other compensation bargaining skills to be motivated to remain loyal to the company.

In any case, companies have to treat their employees as their clients to win in front of the competition. “There is a strong link between customer loyalty and employees. In short, customer loyalty increases sales and profit potential, and leads to higher employee salaries and lower training costs. Increased pay boosts employee morale and commitment; as employees stay longer, their productivity goes up and training costs fall; employees' overall job satisfaction, combined with their experience, helps them serve customers better; and customers are then more inclined to stay loyal to the company” (Reichheld, 1993).

Nevertheless, the company's strategy depends on its management politics:

- When employees have supportive managers, are well compensated and well recognized, are not burned out by excessive demands, have transparent and passionate leadership, and get opportunities for professional growth, they become loyal workers (Wagner, 2017).
- For the human resources policy to meet the organization's goals, it is necessary that it reflect the organization's thinking regarding how people should be treated (Panzaru, S., 2016, p.62).
- It takes more than just paying competitive wages for an employer to show that it values its employees. The most effective strategy for companies to value workers is a blend of tangible and intangible rewards and recognition (Mayhew, 2018).
- All in all, the employees, working at any level, are the eyes and ears of any organization. The real fuel and energy behind a company's growth and success comes from its people or the workforce. It's important to keep the employees delighted and contented to make sure that the organization does not lose on its customers, profits, and most importantly market value (Shethna, 2017).
- The labour is the most expensive and valuable resource at most companies. Managing that resource by time and place is an unproven, inefficient and costly approach that fails to measure what really matters: results (Mulcahy, 2017).

## ***2. The strategy to negotiate the income from salary***

The salary income negotiation takes place between two parties: the candidate for a job or the existing employee and the company's representative, who may be the human resources manager, the recruitment manager, the direct manager, or a senior manager.

The position of the two parties is different because the candidate seeks to get a higher salary as well as other compensations, and the person who represents the company seeks, on one hand, to maintain the balance of the human resources' costs and, on the other hand, to enrich the company with new performant employees and keeping the trained employees, in order to bring in the future more added value to the company. In addition to the salary, some companies offer a number of compensations, including: health benefits, paid-for-off, options to work remotely, different perks (such as gym membership or parking garage fees), bonus for moving to another location, and growth potential over time "(Lypsey, 2016).

By comparison, the candidates and employees request such compensations to alert the level of education, experience, aptitude, skills, performance and loyalty, which should be highlighted.

Under these circumstances, the salary income bargaining is a difficult and risky process, both for the company and for the candidate or employee.

The three main strategies applied in practice (the candidate, the employee and the company's one) are further analyzed.

### ***1. Candidate strategy***

The proposed strategies for wage bargaining by job seekers (Madell, 2017; Snider, 2017, King, 2018; Hansen, 2018; Koenig, 2018) include in the synthesis the preparation for negotiation and the negotiation:

- Preparation for negotiation:
  - informing about the salary level in the company's industry, comparing a possible income with personal expenses and preparing the salary and compensation variants;
  - Assessing your own skills, experience and knowledge in the balance with the requirements of the job description and setting in mind the salary and compensations to be accepted.
- Negotiation: listening, explanation, calm, watching the whole picture and defensive thinking in mind.

There are situations where the candidate does not ask about salary, does not want to negotiate to get different benefits and the company offers him a salary below the market rate (Lypsey, 2016). In this situation, the recruitment manager may decide to hire the candidate for a specified period (eg one month) to see how he / she responds to the job requirements.

There are also situations where the candidate asks for a salary higher than the value of the job. "Sometimes, it's the candidate who has unrealistic salary expectations" (Lypsey, 2016). In this situation, the recruiting manager seeks to understand the circumstances in which the candidate has reached that amount and bring it to reality by additional questions and break times.

## 2. *Employee strategy*

If the employee gets a good grade in his assessment, he is tempted to negotiate a higher salary, compensation or promotion on a higher position.

### a) Salary

In the negotiation process, employees must be confident in their abilities (not to be afraid) and convinced that they do not want enormous salaries but only adapted to the corresponding salary on the labor market (Zhang, 2018). On the other hand, they need to figure out the market value of their skills and experience, but to be informed about the financial situation of the company (Koenig, 2018).

### b) Compensations

If the company does not afford financially to increase wages, compensation is often more advantageous in that it relieves the employee's costs, such as: the cost of studies, the cost of an additional leave, the cost of transport to and from location of the company, cost of accident insurance and others. The employees have to map their request to the goals and needs of the organization (Koenig, 2018).

### c) Career promotion

The career advancement is a privilege, not a right and means a new role, new responsibilities, more authority and more rewards. When you earn a promotion, it means that the people above you have faith in your abilities and who you are as a professional (Scivicque, 2018).

In both situations, the employee must be aware that in order to gain new advantages or privileges, he / she will have to sacrifice time and effort and show commitment to the company.

### *3. Company strategy*

The manager's strategy that negotiates with a candidate or employee depends on the company's overall strategy and policies. From this point of view, there are different types of companies and strategies, but they can be grouped in 3 categories:

- Companies that provide salaries above the average wages in the industry, especially for specialized personnel to maintain them (Stefanescu, 2017, 18);
- Companies that offer a lower salary but, depending on performance, compensate employees with regular extra gains and other compensations;
- Companies that have fixed a fixed salary for each post and who do not offer compensation. "If the employer refuses to negotiate the salary it demonstrates an unwillingness to cooperate" (Lypsey, 2016).

In the first two strategies, depending on the negotiations and budget flexibility, companies need to resize their salary budgets and / or spending budgets with employees' compensations.

### ***3. The general framework for negotiations***

The process of wage and compensation negotiation can be divided into two components or moments: in the selection for employment and during the engagement (the person as employee). Also, people who are employed are grouped according to their place of work: in offices and production and sales locations.

The general framework of the negotiations includes: the selection of candidates and the specific criteria of the two groups of employees, the employees' requirements for their own benefits and the company's benefits if they meet their requirements (fig.1).

The criteria considered for the candidates could be:

- For offices jobs: carrier journey; candidate Experience; fit & personalization and, interview; finally, the best fit candidates are prioritized (Finkelstein, 2018).
- For production and sales work place: carrier journey; candidate experience; interview; practical work and, time & location acceptance (workshop and sales place).

The general framework of the negotiations also includes: the employees' expectations or requirements and the company's benefits if it is taking into account the employees' desire.

*The employees' expectations*

- For offices jobs: early salary review (such as annually increase according to the performance); rewards (such as money in addition for a finalized project); tech & equipment (such as phone, laptop or car, depending on the tasks and position); feed-back (communication during the activity); social interaction (such as week-ends with all staff); recognition for a higher position (the opportunity for professional development or title); remote work or flexible time (the opportunity to work from home or having flexible time for working); vacation & leave time paid; parental leave paid.
- Increasingly more, some of the staff is requiring free time to think and work in quite location, like at home and to be valued according to the results and deliverables instead of spending the working time in the office space. This means trust from the employer and interpersonal communication by using IT devices (Mulcahy, 2017; Sinatra, 2018).
- For production and sales work place: fair wages (the wage according to the effort); rewards (such as money in addition for productivity and quality or for sales in addition compared with the target); bonuses (such as buying some items produced in the company at the production cost); feed-back; coaching (when new technology or procedure is implemented); working conditions (such as lack of pollution, safety and healthy working environment); recognition for the performance; vacation & leave time paid; parental leave.

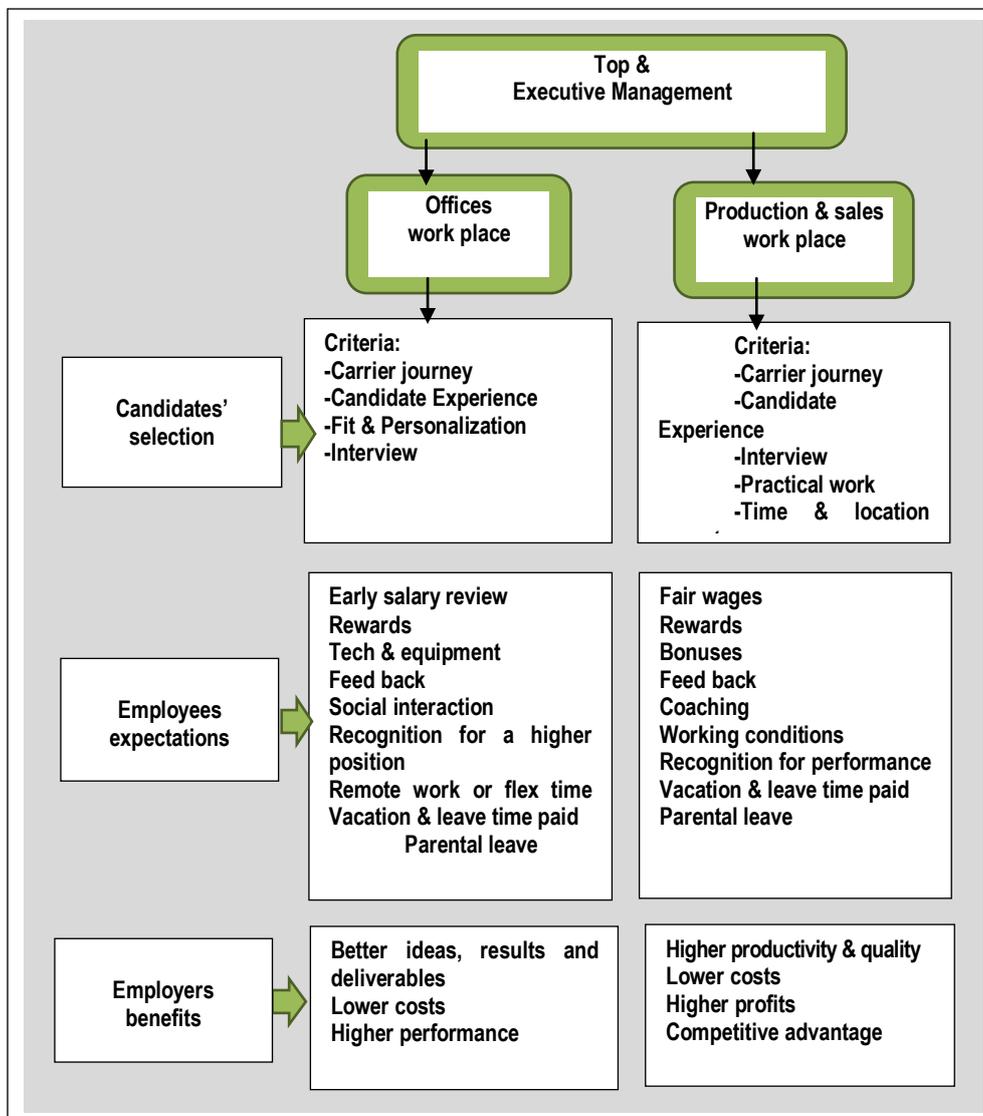


Fig. 1. The income from salary negotiation framework

### *The employers' benefits*

Even if the employers are offering salaries/wages under the industry rate, the employees could be much happier with getting different compensations. In this case, the companies will benefit from the white

collars of better ideas and results or deliverables, lower costs and higher performance and from workers of higher productivity & quality, lower costs and higher profits and, competitive advantage.

Considering that the personnel is the most valuable company's asset, having satisfied and committed people in the company is really a big deal.

#### ***4. Bargaining strategy***

Most of the companies are using, at least annually, the personnel evaluation process to know how their employees are responding to the job description requirements and how they perform according to the imposed tasks. Depending on the company's size, the evaluation is realized by the top manager, HR (human resource) manager or the direct or superior executive manager.

Having the results of the personnel evaluation, the managers are going to negotiate or re-negotiate the employees' income from salary at their request or at the Union request (if it exists). During this negotiation process the two parties (employee and employer's representative) are using different strategies (fig. 2).

##### *Employee's strategy*

The employee's strategy consists in the following steps:

- Learn about industry wages & compensations market rate to see what level of salary the employee need to have in his/her mind for the negotiation;
- Compare the cost of living with the industry rate to know what level of salary he/she needs;
- Fairly valuate own skills & knowledge to know if the employer may be satisfied of his/her results obtained;
- Fairly negotiate in steps
  - negotiate the salary/wage; the employee has to try to obtain a higher salary, but if the company doesn't afford it he/she has not to insist on the subject;
  - negotiate compensations; sometimes the compensations are more useful than the salary and the employee may insist on getting more advantages;

- Get the mutual agreement as a compromise between employee's application and the employer's representative acceptance at the bargaining table.

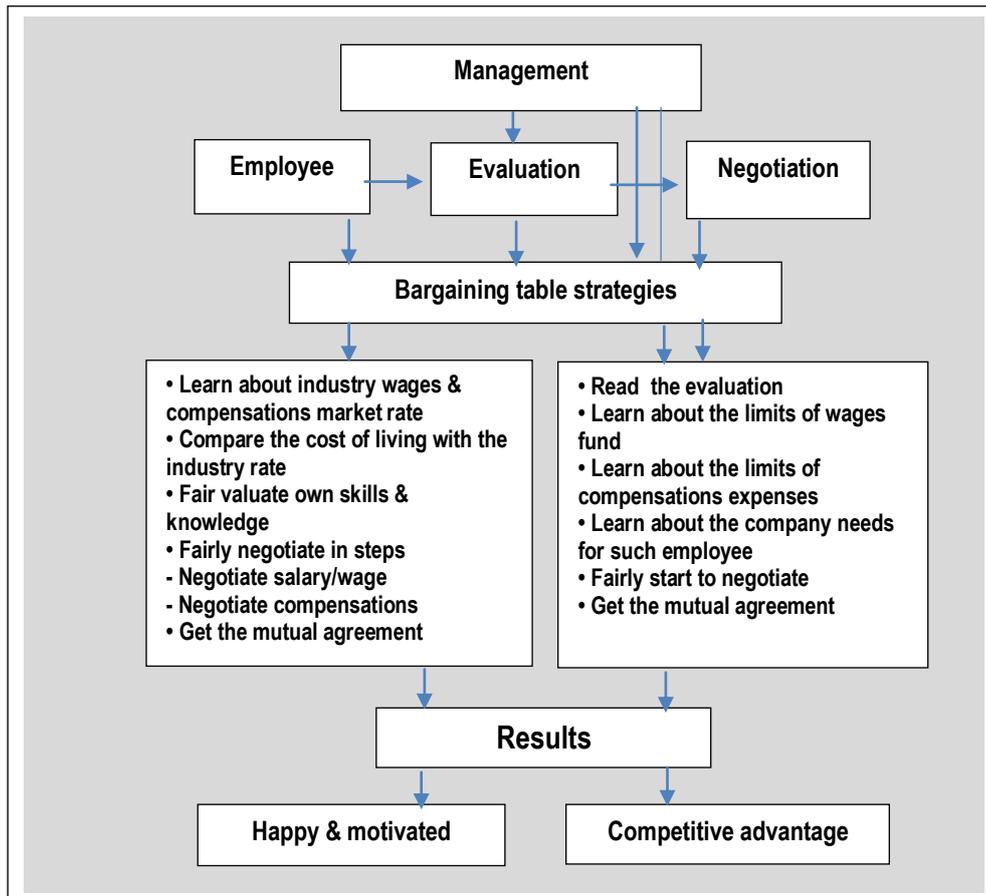


Fig. 2 Conceptual framework of the income from salary negotiation strategy

#### Employer's strategy

The employer's strategy includes 6 steps:

- Read the evaluation to know about the employee's performance and professional evolution;
- Learn about the limits of wages fund of the company;

- Learn about the limits of compensations expenses that the company affords;
- Learn about the company needs for such employee;
- Fairly start to negotiate having in view the employee's requirements in balance with the company's financial possibilities and human recourse needs;
- Get the mutual agreement as a compromise between employee's application and the employer's representative acceptance at the bargaining table.

These strategies, finalised with a compromise at the bargaining table from the both parties have as results, on one side happy and motivated employees and, on the other side competitive advantage for the employers. In getting the mutual agreement, the both parties are considering a win-win opportunity.

### ***Conclusions***

In order to reflect the employees' value in the salaries/wages negotiation process the companies have to update their strategies to the new paradigm of the labour market.

The companies have to measure what the employees produce, deliver, and solve and have to consider them as clients. In this respect, the companies have to consider their employees as being their most valuable asset. The neglect of treating employees as clients by the company's management brings serious threats to its future.

As a rule, companies want the best employees, but with lower costs, and employees want higher wages and compensation as many as possible; so the negotiation needs to be done in a way of mutual respect, as correct as possible and, ending with a win-win compromise.

If we put the question "Is the value of employees reflected in the income from salary negotiation?", the answer is No; because as Shethna (2017) stressed "the salaries cannot be considered as true measure of their skills, and expertise, as the knowledge or creative ideas are abstract. They are intangible and cannot be measured in terms of money".

The framework for the salary income negotiations and the conceptual framework of the salary income negotiation process, as well as the opinions discussed in this paper, may be useful tools for managers.