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## **Organization of remuneration of labor of hired workers in Ukraine: situation and problematic aspects**

**Abstract**

The aim of the article is to highlight the state of organization of labor remuneration of employees and the existing problematic aspects of this process in Ukraine. To achieve this goal it is planned to solve, in particular, such tasks as: to consider the concept of "remuneration" as a legal and socio-economic category; to study the processes associated with the organization of employee compensation; to determine the influence of external environment factors on the organization of remuneration; to provide suggestions for improving the organization of employee compensation in the form of conclusions. The object of the study is the labor relations associated with the implementation of the right to wages. The subject of the study are processes in the field of remuneration of labor and their relationship with the requirements of Ukrainian legislation. In terms of legal assessment the concept of "remuneration" is wider than the concept of "wages", which is only a part of remuneration in the process of its organization. From the point of view of coverage of labor remuneration as a socio-economic category, it is necessary to refer to the characteristic of remuneration functions – its purpose, role, component of practical activity on coordination and realization of interests of the main subjects of relations in the process of entrepreneurial activity. Remuneration of labor, as compensation to employees for the cost of their labor force, is not an exclusive component of the employer's personnel costs. Therefore, the organization of remuneration of employees can be presented in the form of a certain complex of measures, which should be based on certain principles. The basis of effective organization of labor remuneration is an objective assessment of certain factors affecting both the labor activity of an employee and his labor behavior. Employers' approaches to remuneration depend on how an individual employee (or group) is perceived in terms of their participation in individual business processes and/or in the business as a whole (as individual elements of the business, as human resources or as human capital). Improvement of remuneration processes of employees consists in the transformation of existing industrial and social relations between the employer and employees from ensuring satisfaction of labor activity to their loyalty to the processes they perform and the organization in which they work in general, as well as the involvement of employees in the economic activity of both individual structural subdivisions of this organization and the organization as a whole. In order to achieve this goal, certain areas of remuneration organization activities and proposals for the order of development of employee remuneration systems are proposed. Among the problematic aspects of the organization of workers' compensation is a certain simplification of the approach and distancing of the "decision-making centers" both on personnel management in general and in the organization of workers' compensation, in particular, from the realities of business processes occurring against the background of depreciation (from a worldview perspective) of the executive labor process, especially in the areas of material production. Among the main directions of the external environment, the factors of which influence the state of organization of labor remuneration in Ukraine, certain problem aspects of both legislative and contractual regulation of labor remuneration, as well as improvement of the general state of the labor market of Ukraine and the level of its research on labor remuneration issues were singled out.

**Keywords**

Human capital, human resources, labor force, labor market, legislation and contractual regulation, organization of remuneration of labor, payment of labor, valuation, wages

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## 1 Introduction

In the context of transformation processes taking place in the economy and social life of Ukraine during a long enough "transitional period" and its complication by the current crisis, the question of improving the system of organization of remuneration of employees is certainly one of the priority stages of recovery of both the economic and socio-political situation in the country. The relevance of solving the issues of labor remuneration is connected with the fact that, on the one hand, wages act as a labor incentive to improve the efficiency and effectiveness of business activities, and on the other hand, the main element of the cost of goods (services) produced (provided) by the subjects of entrepreneurship. Balancing between the increase in wages to employees and optimization of the share of each element of the cost of production to achieve stable economic indicators of economic activity is the main task that every economic entity sets for itself today. In addition, labor remuneration is an important factor of social peace and harmony between different segments of society, since both the quality of workers' work and the ability to provide them and their families with a certain standard of living and the costs of business depend on the amount of wages accrued and the timely and complete settlement with employees. Effective organization of labor remuneration promotes not only processes of development of qualitative characteristics of labor force of workers and realization of their labor potential, but also influences the process of economic growth both of separate economic entities and separate regions and the state as a whole. In addition, wages are the basis for the accrual of the single social payment and withholding tax on personal income.

In modern conditions, in accordance with changes in the economic and social development of Ukraine, the policy on wages, social support and protection of workers is changing significantly. Many functions of the state to implement this policy have been transferred directly to business entities, which independently establish the forms, systems and amounts of wages, financial incentives for its results. Since the state centrally carries out a unified state regulation of wages, establishes mandatory for all enterprises and organizations wage standards, i.e., tariff rates, official salaries, the maximum amount of bonuses and allowances, which allows a unified policy of wages throughout the country, the combination of centralized regulation of wages and independence of business structures is important. Improvement of labor remuneration involves the need for more accurate accounting of quantitative and qualitative labor costs and improve the use of wages to stimulate the development of labor productivity, increasing the efficiency of production as a whole.

The purpose of the study is to highlight the state of the organization of remuneration of employees

and existing problematic aspects of this process. To achieve this goal, the following tasks, in particular, are supposed to be solved:

- to consider the concept of "remuneration" as a legal and socio-economic category;
- to investigate the processes involved in the organization of employee compensation;
- to determine the impact on the organization of remuneration in Ukraine of factors of the "external environment";
- to draw conclusions on ways to improve the organization of labor remuneration of employees.

The object of the study is the labor relations associated with the implementation of the right to wages. The subject of the study are processes in the field of labor remuneration and their relationship with the requirements of Ukrainian legislation. The methodological basis of the study is formal and logical, system and structural, comparative and structural methods of research.

## 2 Remuneration as a legal and socio-economic category

The definition of the concept of "remuneration of labor" is of theoretical and practical importance, since this legal category is one of the main characteristics of labor relations. Along with the term "remuneration" in the scientific literature and practical activity the concept of "wages" is used. Very often they are used as equivalent, replacing each other, and therefore it is necessary to find out whether their essence and content are really the same. The current legislation of Ukraine (Labor Code of Ukraine) (Labor Code), the Law of Ukraine "On Wages" and others) uses the term "wages", although the definition of "wages" is given. For example, in accordance with the Labor Code of Ukraine in the section on wages (part 1 of Art. 94) "remuneration, calculated, as a rule, in monetary terms, which the owner or its authorized body pays to the employee for the work he performed" is defined by the term "wages". A similar definition is enshrined in the Law of Ukraine "On Remuneration of Labor". That is, the concept of "wages," which covers all types of earnings, as well as various bonuses, allowances, supplements, benefits and social benefits accrued in cash and in kind, regardless of funding sources, including monetary amounts accrued to employees in accordance with applicable law, is defined as "remuneration". Thus, from the legislator's point of view, the concepts of "remuneration" and "wages" are identical. This approach is supported by a fairly wide range of scholars, who consider the concepts of "remuneration" and "wages" either synonymous, or correlated as part and whole (Prokopenko, 2008).

In accordance with international instruments, in particular ILO Conventions and recommendations, the term "wages (salary)" is also used as any remuneration, computed in money, which an

employer must pay under a written or oral contract to an employee for work to be performed, or for services to be rendered or to be rendered (Art. 1 of the ILO Convention No. 95).

There is also an opinion among scholars about the difference between these concepts, which is that "wages" focuses on the object of legal relations between the business owner and the employee hired by him (or his authorized body), and the category "remuneration" indicates the actions of the business owner, which should be committed by virtue of the presence of labor relations, but it is impossible to identify any features of rights and obligations, the conditions for their implementation and the consequences of non-performance of obligations, depending on the application in a particular normative legal act of one of these two concepts (Rotan', Zub, Sonin, 2016). According to the author, the term "remuneration" is broader and its purpose is directed both to the organization of processes related to wages and to the regulation of its separate elements and the whole system of legal means in this sphere. Whereas the term "wages" is aimed at the implementation of the rights of employees to receive monetary remuneration in labor relations with business owners.

Thus, highlighting the problematic aspects of the organization of remuneration, on the basis that the concept of "remuneration" is a broader concept, which includes the concept of "wages", which is only a part of this payment.

In terms of coverage of remuneration of labor as a socio-economic category, it is necessary to address the characteristics of the functions of remuneration – its purpose, role, component of practical activities for the coordination and implementation of the interests of the main subjects of relations in the process of entrepreneurial activity. Among the main functions of remuneration are, in particular, the following:

- the reproductive function is to provide workers with the necessary living benefits to reproduce and improve the workforce;
- stimulating or motivating function – is to establish the dependence of remuneration on both the quantity and quality of work of a particular employee, as well as on his contribution to the results of the team and enterprise;
- regulatory function – is to optimize the placement of labor, taking into account the market situation by type of activity, industry, region;
- social function – reflects the measure of living labor in the distribution of funds between the worker, the owner of the means of production, and society;
- the function of the formation of solvent demand of the population consists in the coordination of solvent demand, which is commonly understood as a form of identification of needs, provided by

the funds of buyers, on the one hand, and the production of consumer goods, on the other (Hrishnova, 2009).

### **3 Organization of remuneration of employees in Ukraine**

The implementation of any entrepreneurial activity is impossible without a certain set of people who are carriers of a certain "workforce" and organized in a certain way to perform certain labor functions aimed at obtaining the desired result to achieve the goal of the business. "Workforce," which is an integral and indispensable (and in some cases decisive) element of any business process, means the ability of a particular individual to perform certain work functions through the realization of the totality of his physical, spiritual and intellectual abilities and includes his knowledge, skills, accumulated work experience and work behavior, as well as physical, mental and emotional health. That is, it represents certain qualitative characteristics of the organization's personnel. Employers' expenses for the use of employees' labor force consist of many factors, in particular, of the expenses for: payment for work performed (hours worked) and payment for non-working hours (in accordance with the norms of current legislation); one-time payments and incentives; stipulated by collective bargaining agreements and social agreements; professional training and development of personnel; provision of social and living conditions at work; provision of safe and normal conditions for carrying out the labor process and occupational safety measures; payment of taxes and accruals provided for by the current legislation (social and pension insurance, etc.).

Thus, remuneration, as compensation to employees for their labor costs, is not an exclusive component of the employer's personnel costs. Therefore, the organization of remuneration of employees can be presented as a set of measures, in particular such as (Moroz, 2015):

- determination of the forms and systems of remuneration to be used;
- justification of sizes and coefficients in the basic part of remuneration systems and conditions of their implementation;
- determination of indicators and amounts of bonuses, incentive and incentive bonus systems and compensation payments;
- development of criteria for establishing and determining the amount of additional payments, allowances and other compensatory and incentive payments.

In addition, these measures must be based on certain principles, among which the following can be highlighted in particular: a) fairness and prevention of discrimination in pay; b) correspondence of pay to labor input and the conditions of the labor process;

c) differentiation of remuneration of labor depending on the complexity of labor functions, the quality of their performance, the size and effectiveness of the employee's labor contribution to the results of the organization, production and climatic conditions of the labor process and other characteristics of production and labor activity; d) stimulation and motivation of employees to improve the quality and scope of their work and to work with due diligence; e) responsibility of employees for failing to perform their assigned job functions and assigned production tasks; f) ensuring a correlation between changes in the results of labor activity and changes in wages, taking into account its indexation (taking into account fluctuations in the purchasing power of monetary remuneration); g) simplicity, logic and accessibility of employees' understanding of the remuneration mechanism, existing forms and systems of remuneration and their components; h) taking into account the influence of state and contractual regulation of wage payments, as well as the state of the labor market and its conditions (Kolot, Tsybalyuk, 2014).

Approaches to the organization of employee compensation by employers depend on how the individual employee (or group) is perceived in terms of his or her participation in individual business processes and/or in the business as a whole:

a) *as a separate element of the business process* – a certain part of the process at the level of means of production and objects of labor in the form of individual workers to perform their assigned labor functions and comply with established rules. Compensation of workers in this case is aimed at covering the costs of ensuring a certain level of existence and the possibility of reproduction of the labor force. The purpose of management is to ensure the relative satisfaction, the performers of labor functions in the amount of their wages;

b) *as a certain business resource (Human Resources)* – a certain means of achieving a certain goal and solving established tasks, a condition for ensuring the efficiency and effectiveness of business operation, which is the workforce. Organization of labor remuneration is based on the introduction of both compensation and incentive and motivational systems, taking into account the cost of labor in the labor market in order to ensure the loyalty of members of the labor collective to the work they do and the business as a whole;

c) *as a business capital (Human Capital)* – a certain value that can increase, creating additional value for the business, manifesting itself as an intensive and productive factor in its economic development, as an essential component of the business, acting as a team of business partners, united to achieve a certain goal. The basis for remuneration of such employees is to determine the role and importance of both the employee himself and his workplace and the results of his activities for the functioning and

development of both individual business units and the business as a whole by ensuring the involvement of such employees in business activities and building partnerships with them.

Thus, the improvement of processes of organization of remuneration of employees is the transformation of the existing industrial and social relations between the employer and employees from providing satisfaction of labor activity to their loyalty to the processes they perform and the organizations in which they work in general, as well as the involvement of employees in the economic activity of both individual structural units of this organization, and the organization as a whole.

In our opinion, the main areas that should determine the achievement of this goal include, but are not limited to:

- determination of the level of competence and the existing state of competence of employees to carry out the labor process;
- objective assessment of the conditions of the work process at the workplace and the requirements for employees, as well as their impact on it in the performance of work functions and employment;
- establishment of indicators of results (quantitative and qualitative) of labor activity of employees at certain workplaces;
- objective assessment of the degree of influence on the performance of the organization and (or) its separate structural subdivisions of the results of labor activity achieved by individual employees (individual labor collectives);
- substantiation of the level of remuneration of both individual employees and certain labor collectives with ensuring a certain degree of both internal (among the organization's employees) and external (among similar employees in the labor market) fairness in the remuneration of employees and labor collectives;
- supplementing the remuneration system with mechanisms to influence the labor behavior of employees through encouragement, persuasion, and coercion.

Analysis of domestic and advanced foreign experience (on the example of enterprises of the mining and metallurgical complex) of development of remuneration systems of employees, which can be attributed to the level of human resources, allows to offer the following order:

a) diagnosis of existing remuneration systems in terms of staff satisfaction of the organization, compliance with legal requirements and a defined strategic goal and ensuring that the objectives are achieved;

b) development of basic principles and mechanisms for implementing the organization's compensation policy in general and at a specific workplace in particular;

c) determination of the content and structure of the compensation package (development of basic and variable parts of the payment, the system of additional payments and compensations);

d) drawing up internal regulatory documents justifying their implementation and regulating the system of their application;

e) training employees and explaining the essence and mechanism of the remuneration system, its possibilities, advantages and limitations;

f) continuous monitoring and control, as well as systematic auditing of the use and implementation of remuneration systems.

Among the main problematic aspects of the organization of workers' compensation, in our view, are, in particular, the simplification of the approach and the distancing of "decision-making centers" both on personnel management in general and in the organization of workers' compensation, in particular, from the realities of business processes occurring against a background of devaluation (from a worldview perspective) of the executive labor process, especially in the areas of material production.

#### **4 External environment of influence on the organization of remuneration**

From the point of view of management theory, when making and implementing management decisions, there is a certain "external environment", which is a set of certain influencing factors (both direct and indirect), independent of the subjects of management and not controlled by them. The influence of "external environment" factors cannot be corrected, but must be taken into account. Among the main areas of the external environment, the factors of which affect the state of the organization of labor remuneration can be distinguished:

Legislative regulation of labor remuneration – this factor determines: a) the level of minimum wage (the state social guarantee mandatory on the entire territory of Ukraine for organizations of all forms of ownership and economic activity, as well as individuals who use the labor of employees); b) the standard remuneration in terms of the procedure and amount of remuneration in certain cases (for overtime, on public holidays and weekends, in the evening and at night; for downtime; for manufacturing defective products, etc.) and certain situations (annual leave; when performing public duties; employees transferred temporarily to another job; in various forms of industrial training, etc.) c) guarantees for employees in terms of payment in certain situations (donor payments, in the case of moving to work in another locality, during business trips, working in the field, etc.). The norms of the current labor legislation require harmonization, codification and updating, but the new Labor Code of Ukraine was adopted only

in the first reading by the Verkhovna Rada of Ukraine on 24.07.2017 and this issue has not been considered again and remains unresolved. In addition, the problematic issues include the implementation of systematic control over the compliance with the labor legislation of Ukraine and the appropriate response in cases of violation.

Contractual regulation of remuneration – is based on the principle of gradual improvement of working conditions of employees from the norms established by laws to the norms stipulated by the General, sectoral and territorial agreements, based on which the provisions of Collective agreements, which are norms of direct action (as well as norms stipulated by laws and other normative legal acts), are determined. Among the problematic aspects of the contractual wage regulation is to some extent obsolete legislative basis for the contractual regulation of labor relations in Ukraine (although the Law of Ukraine "On Social Dialogue in Ukraine" is in force since December 23, 2010, the main law determining the nature of contractual relations the Law of Ukraine "On Collective Agreements and Contracts" is in force since July 1, 1993 (with amendments and additions)). According to the author, it is necessary both a certain consistency of legislative acts and a significant separation of issues of the formation and content of agreements and contracts (availability of the same issues with the same approach to their solution for different participants of the dialogue and conditions of their functioning (except when the state acts as an employer), and strengthening of control over compliance with concluded agreements and contracts and ensuring real responsibility for their non-fulfillment. The implementation of these activities should further improve the industrial and social relations between the employer and employees on the way to transform these relations into a social partnership and lead to a policy of partnership and compromise between them.

The general state of the labor market and the level of its research on wages – is characterized by a certain: a) imbalance of market conditions as a result of the imbalance between the demand for labor and its supply, both regionally and sectorally and professionally; b) the inconsistency of the training system with the requirements for their practical use, both in terms of directions and level of training, and in terms of the available learning opportunities and the desire of students to receive the necessary training; c) lack of up-to-date information about the state of the labor market and its development trends, both in terms of access to statistical and analytical materials, and in terms of conducting labor market research in terms of assessing the cost of "labor force" in the sectoral and regional aspects (which is carried out by specialists of individual consulting companies, for example, Hay Group and others).

## 5 Conclusions

Based on the above, the following conclusions can be drawn:

- In terms of legal assessment, the concept of "remuneration" as compensation for work performed is a broader concept than the concept of "wages", which is only its component in the process of organization and development of compensation and motivational systems. From the point of view of highlighting approaches to the organization of remuneration as a socio-economic category, it is advisable to turn to the characteristics of the functions of remuneration, as well as its purpose and role as part of the sphere of practical activities for the harmonization and implementation of the interests of the main subjects of relations in the process of entrepreneurial activity.
- Remuneration, as compensation to employees for the cost of their labor force, is not an exclusive component of the employer's total costs associated with the hiring, maintenance and use of personnel. Therefore, the organization of processes related to remuneration of employees can be represented as a certain set of activities, which should be based on certain principles.
- The basis of an effective remuneration organization is to conduct an objective assessment of such factors as: a) competence (level of knowledge, abilities, skills and work experience) of an employee compared to the competence required to perform the work process; b) conditions of the labor process at the workplace and the requirements for workers on the part of the labor process and production in general; c) indicators of the labor activity of employees at certain jobs; d) the influence of the results of labor activity of both individual employees and individual labor collectives on the performance of the organization as a whole and its subdivisions in particular; e) the degree of both internal (among the organization's employees) and external (among similar employees in the labor market and workforce) pay equity for individual employees and individual workforces and the reasonableness of their overall pay levels; f) impact on the worker as measures aimed at restraining, prohibiting and punishing the worker, as well as holding him or her accountable, as well as the system of incentives and work motives (the impact of work motives on the inner world of a person, his or her desires, the system of his or her norms and values, etc.).
- Employers' approaches to payroll depend on how an individual employee (or group) is perceived in terms of their participation in individual business processes and/or in the business as a whole (as individual business elements, as Human Resources or as Human Capital).
- Improvement of processes of organization of remuneration of employees consists in transformation of existing industrial and social relations between the employer and employees from ensuring satisfaction of labor activity to their loyalty to the business processes performed by them and the organization in which they work in general, and also to involvement of employees in business activity both of separate structural subdivisions of this organization and the organization as a whole. To achieve this goal, both lines of action and certain procedures for developing employee compensation systems are suggested.
- Among the problematic aspects of the organization of remuneration of employees is a certain simplification of the approach and distancing of "decision-making centers" both on personnel management in general and in the organization of remuneration of employees, in particular, from the realities of business processes occurring against the background of devaluation (from a philosophical point of view) of executive labor process, especially in the areas of material production.
- Among the main areas of the external environment, which factors affect the state of the organization of labor remuneration in Ukraine, there are certain problem aspects as legislative (harmonization, codification and updating of current labor legislation, ensuring systematic monitoring of compliance with labor legislation of Ukraine and the appropriate response in cases of violations) and Contractual regulation of remuneration (requires both a certain consistency and delineation of issues of formation and content of contracts and agreements, and strengthening of control over compliance with concluded contracts and agreements and real responsibility for non-compliance with them), as well as improving the overall state of the Ukrainian labor market and its level of wage research. One of the problems of contractual regulation of labor relations is the problem of developing a mechanism for creating and ensuring the functioning of bodies authorized to represent the interests of the parties in social dialogue, which should be: a) the sole, legitimate and representative of each party at every level of the agreements and contracts governing labor relations; b) the decision of which should be binding on all members of the organization whose interests it represents; c) legally and financially independent of the opposite side of the dialogue, with sufficient competence and awareness of the subject matter of the negotiations, able to take into account mutual interests and to find compromise solutions.

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