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## TRENDS IN THE DEVELOPMENT OF REMUNERATION MODELS IN THE REPUBLIC OF KAZAKHSTAN

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**Annotation.** Improvement issues of the wage formation are important for all post-Soviet countries, including the Republic of Kazakhstan, as no effective market mechanisms of its formation are yet developed in the enterprises. No common approaches for implementation of effective models of labour remuneration were developed in the country. As a result, wage rates are not related to performance, there is an unjustified difference of wage rates by industries, regions and specific professional groups of workers. The above mentioned reasonably determines the relevance of the topic.

**Keywords:** labor, wage formation, Kazakhstan, wage remuneration models.

### INTRODUCTION

In the market economy conditions the effectiveness of the enterprise depends on the use of the modern systems to improve financial motivation of employees. An important role in this regard belongs to the development of effective remuneration models. Objective of the paper is to identify the development trends of labour remuneration models in the Republic of Kazakhstan and develop on this basis the most appropriate models that will link wage with the objective factors of its formation.

**Methodology.** The authors used the methods of logical and economic-statistical analysis as well as methods of economic-statistical pooling in the paper. Data of the Statistics Agency of the Republic of Kazakhstan for the period 2010-2015, the country's legislation on labour relations were the main sources of information.

The aim of research - development of proposals for implementation of the most effective remuneration models based on the analysis of existing models.

The object of the research - current remuneration models in Kazakhstan companies

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Analysis of the information and discussion. The paper is based on the works of well-known foreign and domestic scientists. However, the research works did not address the issues of developing effective labour remuneration models in connection with the requirements of national legislations on labour remuneration.

Conclusion and practical implications. Results of the research work represent practical recommendations for the development of the most appropriate wage remuneration models in the business sector of the economy of Kazakhstan. The recommendations and propositions fully meet the requirements of national legislation on labour remuneration. The practical relevance of the work lies in the opportunity of using the results to provide the direction for further reforms of the wage formation at enterprises.

## **EVOLUTION OF REMUNERATION MODELS**

The efficiency of staff remuneration depends on the models of organization of wages used by enterprises of all economic sectors. Over a period of more than twenty years of independent development of the Republic of Kazakhstan depending on the degree of economic freedom different approaches were used to the models of payment. At the dawn of independence in the early 90s of the 20th century the government policy was aimed at rigid centralization of wage payment. A concrete reflection of this policy was an attempt to introduce in all companies a Unified payment scale for workers with strictly fixed tariff coefficients and rates of wages. The Unified payment scale (UPS) included 21 wage categories assigned to employees depending on their positions (professions), ranging from low-skilled workers to top managers. In fact, such a scale represented a transformational type of the payment system which existed during the period of planned and commanded economy.

Later, with the development of market relations, centrally set rules significantly weakened which allowed companies to set their own internal minimum wage, the rates for workers, amount of premiums and other types of remuneration. With the adoption of the Labor Code of the Republic of Kazakhstan in 2015 businesses have got a broad independence in this area. State policy in the sphere of payment is currently based only on the establishment of minimum acceptable safeguards that cannot be broken. A case in point is the minimum monthly wage established by law on the national budget for the year, the minimum wage standard applicable to workers employed in hazardous and dangerous conditions, the marginal additional payments for night work, overtime work and work on holidays and weekends. The enterprises of entrepreneurial sector had got the opportunity to use different models of payment (split

tariffication, mixed payment system, a single tariff system, etc.). However, the lack of clear conceptual and methodological guidance in building the efficient models of the wages of workers in the post-Soviet countries, and in particular in Kazakhstan, have serious negative consequences in the field. First of all, we are talking about the loss of the relationship between the remuneration and the results of labor.

## EFFICIENCY OF REMUNERATION MODELS

Statistics indicate that in recent years the pace of wage growth significantly outpaced the growth rate of labor productivity.

**1 table.** The pace of wage growth to the 1% growth of productivity in the economy of Kazakhstan [%] (Source: source: [www.stat.kz](http://www.stat.kz)<sup>1</sup>)

Indicators	2012	2013	2014	2015
Wage growth (in % to the previous year)	112,4	107,5	110,9	104,1
The growth rate of labor productivity (in % to the previous year)	102,8	104,9	104,6	100,6
Wage growth to the 1% growth of productivity	4,4	1,5	2,4	6,8

As can be seen in the period from 2012 to 2015 there has been a serious excess of wage growth to the 1% increase in labor productivity. Such dynamics very clearly show the lack of relation of wages with the final results of enterprises activity. It should also be added that the same situation was in all previous years of independent development as well.

Among the negative consequences of the reforms in the area of remuneration we should include the unjustified differences in the size of wages of workers in the different spheres of economic activity.

These statistics clearly indicate that the value of the average monthly salary in the professional, scientific and technical activities in 2015 was 4 times higher than in agriculture, forestry and fisheries. It should be noted that in 2012 this difference was 3.8 times, which means there is a tendency of widening differentiation of the wage amounts by industries.

We can clearly recognize that such differences in payment between the areas of economic activity are hardly justified by any objective factors and evidence of serious shortcomings in the organization of wages.

Kazakhstan's economy is also characterized by large regional differences in wage levels. For example, according to the statistics, the difference between the maximum and the minimum

<sup>1</sup> Internet resource [www.stat.kz](http://www.stat.kz)

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wage in the Republic of Kazakhstan regions in 2015 reached 2.9 times. Herewith, in 2012 this figure was 2.6.

## DEVELOPMENT OF THE EFFECTIVE REMUNERATION SYSTEMS

The issues of building effective models of wages have been extensively studied in the works of American economists Lawler<sup>2</sup>, Schuster and Zinghaym<sup>3</sup>, Flannery<sup>4</sup>, Henderson<sup>5</sup>, English scientists Armstrong and Stevens<sup>6</sup>. Various aspects of the problem were studied by Russian economists as Yakovlev<sup>7</sup>, Kokin<sup>8</sup>, Volgina<sup>9</sup> and others. In the works of these scholars there were discussed theoretical, methodological and practical aspects of developing of effective models of remuneration to ensure close links of wages to the objective factors of differentiation of its amount. At the same time, the features of labor legislation of the Republic of Kazakhstan do not allow to fully take advantage of the proposed approaches to the selection of the most effective models of payment. For example, the Labour Code of the Republic of Kazakhstan stipulates that the remuneration system should provide the major share of wages (relative to the constant part of the wage) is not less than 75 per cent of the average monthly wage, excluding one-time incentive payments<sup>10</sup>. This way there are limited possibilities for significant payments related to the variable part of salary.

The labor legislation of Kazakhstan provides the use of three main models of payment in the country: tariffs, tariff-free and mixed. The tariff model is based on an element-wise approach to the evaluation of contribution of each employee. It establishes a set of parameters to assess the contribution of each employee. On the one hand, it is a set of labor standards (standards of time, production, maintenance, etc.), and on the other it is a set of rules of payment (tariff rates, salaries, fees, etc.). By the tariff model a worker is paid separately for fulfilling the

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<sup>2</sup> Lawler E.E. (1990) Strategic Pay, Jossey-Bass, San Francisco.

<sup>3</sup> Schuster J.R and Zingheim P.K. (1992) Vie New Pay. Lexington Books, New York.

<sup>4</sup> Flannery T.P., Hofrichter D.A. and Platten P.E. (1996) People, Performance and Pay. The Free Press, New York.

<sup>5</sup> Henderson R. The compensation management. 8th ed. / Per. from English. ed. Gorelov N.A. - St. Petersburg: St. Petersburg, 2044. – 880 p.

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<sup>7</sup> Yakovlev R.A. Compensation of employees in the organization. - 2nd ed., Revised and enlarged. - M: MTsFER 2005. - 528 p.

<sup>8</sup> Labor Economics: Textbook / Ed. prof. P.E. Shlendera and prof. Y.P. Kokin. - Moscow: Yurist, 2002. - 592 p.

<sup>9</sup> Labor Economics (Labor Relations) / Ed. N.A. Volgin, J.G. Odegova. - M.: "TEST", 2002. – 736 p.

<sup>10</sup> Labour Code of the Republic of Kazakhstan - // Labour in Kazakhstan: problems, facts, comments. - 2015. - № 12. - P. 2-56.

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norms, separately for exceeding the norms, and separately for working conditions, the complexity of work and qualification of the employee.

The tariff payment model can have many variations depending on the specific characteristics of each company. For example, the following pattern may occur in practice:

- the wage scale of workers and the scheme of salaries of employees;
- the wage scale of primary production workers, the wage scale of auxiliary production workers, the wage scale of employees;
- the base wage scale of workers, the wage scale of employees of branches of enterprise, the wage scale of employees of the central apparatus of enterprise;
- a unified wage scale of workers and employees of enterprise;
- a unified wage scale of workers and employees of branches (production units) and the wage scale of employees of the central apparatus of the enterprise, etc.

The tariff-free payment model is the opposite to the tariff payment model. It is characterized by the following features:

- Close relationship of the level of payment of the employee with the payroll earned on collective results;
- Assigning each worker constant (relatively constant) coefficients characterizing his skill level and determining his labor contribution to the overall results of labor;
- Assigning each worker coefficients of labor participation in the current results of activities complementing the assessment of his skill level.

Mixed model of remuneration may contain elements of both tariff and tariff-free models. The following types of mixed model may be used in practice:

- tariff-free model for the workers of all professions; wage scale for serving employees;
- tariff-free model for the employees of the individual (separate) production sites, and the remaining employees – according to the wage scales for working and serving employees;
- tariff-free model for the employees of subsidiaries of the company, and the wage scale for the central staff of the company, etc.

Application of the above-mentioned models of remuneration is based on the recognition of the existing by legislation rights of employers to set their own:

- model of remuneration;
- value of the wage bill;
- model of the tariff system;
- size of tariff ratios and;

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- wage rates of workers, including wages of the first level (minimum intra-production wage of the worker of the lowest skills);
  - ranges of tariff scales;
  - ranges of salaries of civil servants;
  - types and sizes of compensation (other than statutory);
  - types and sizes of incentive payments, including all kinds of prizes, bonuses and rewards.

The problem is that with such a degree of autonomy in defining the parameters of wage in the country by employers there is almost no learning materials that promote effective regulation of the above indicators of wages. In addition, Kazakhstan's system for collectively agreed wage regulation at the level of industries and regions is poor. In our opinion, it is rooted in the cause of unjustified differences in the size of the wages of workers in industries and regions, as well as vocational and skill groups of workers. On this basis, there is a need for the search for new models of remuneration promoting the elimination of emerging imbalances.

## **IMPLEMENTATION OF THE GRADING REMUNERATION SYSTEM**

It appears that one of the possible solutions to this problem is the development of so-called model of graded pay. In Kazakhstan, the introduction of such a model is relatively recent and mostly used in enterprises owned by foreign participants.

In the English translation the word "grade" means class level. Consequently, the so-called grading wage system is a system of compensation of employees, grouped according to certain levels (qualifications, complexity of work, responsibility, etc.). Typically, such a system is based on special studies to assess employees' professions and positions of employees by a single method using a set of factors that characterize the degree of difficulty and responsibility of work performed. Scoping defined for each position groups and ranks them by level of payment. In fact, this is a tariff system, because they both perform identical functions in the organization of wages. That is why the grading system cannot be viewed as a separate payment systems.

The main purpose of the grading payment system is to determine the value of a particular profession or position in comparison with other professions and positions at a particular enterprise and the establishment, on this basis, of the payment of appropriate size. It should be emphasized that at the introduction of such a system we estimate the working profession and position of the employee, but not the people occupying them. The development of the grading system is based on a variety of instructional approaches. The advantage of grading systems in

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comparison with the current payment of tariff systems is as follows. As it is known, during development of the wage scale schemes and salaries of managers, professionals and other employees wage rates and salaries are set independently by the employer using little or no scientific basis. Grading system involves the use of analytical methods of research and the establishment of grades (pay levels) based on scoring. In other words, such a system can be established scientifically based on inter-position differences in payment. In addition, the effective use of grading systems involves setting values of tariff rates and salaries on the basis of market research of salaries.

In general, the introduction of graded evaluation system and payment allows you to solve the following tasks:

- Determine the relative value of existing posts from the point of view of business strategy;
- Optimize the system of remuneration;
- Establish science-based job evaluation and inter-position ratio in salaries of different categories of staff;
- Evaluate employees on compliance with the positions they occupy;
- Bring the wages of employees of relevant categories of personnel to the market level;
- Create additional conditions for career growth, etc.

In principle, based on the fact that the main purpose of grading system is to establish the value of each profession and position relative to other professions and positions in the company, it should be extended to all workers. At the same time, the legislation does not limit application of grading systems by staff category. Therefore, it is possible to develop such a system either in relation to employees of the management, or to all employees of the enterprise, including production staff.

Grading system is already a reality for many Kazakh companies that are already using these systems. From this point of view, it is believed that their widespread use by other businesses is just a matter of time. As noted above, the basis of grading systems are evidence-based approaches to the establishment of the complexity of work on certain methods on the basis of scores. However, the question is how well the applicable methodological principles of assessment of work comply with the labor legislation of the Republic of Kazakhstan?

Clause 8 of Article 101 of the Labor Code of the Republic of Kazakhstan determines that the qualification requirements for employees and the complexity of certain types of work are established on the basis of a Unified tariff-qualification directory of works and professions of

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workers and Qualification handbook of positions for managers, professionals and other employees and other regulatory materials<sup>10</sup>.

Therefore, to legally comply one should determine whether the applied methodological bases of calculation of grading requirements coincide with the above regulations. As it is known, the establishment of tariff categories in the Uniform tariff and qualification schedule of jobs and occupations is based on the application of a number of estimates of works performed. On this basis, it is fundamentally important that the methodological approaches used to develop estimates of occupations grades meet these indicators. Similarly, it is necessary to review the applicable conformity of assessment indicators of the positions of employees to the content of job characteristics and qualification requirements established by the Qualification schedule of managers, professionals and other employees. And only with the full correspondence it can be considered that the construction of grading payment systems comply with current legislation. Otherwise, such a system would be contrary to the laws of the Republic of Kazakhstan.

## **CONCLUSIONS AND RECOMMENDATIONS**

Thus, development of market relations in Kazakhstan led to the formation of different remuneration models. Changes in the regulation of wages aimed at creating a market mechanism for its reclamation, have not led to the desired results. The effectiveness of the remuneration system in Kazakhstan is low. There implies the need for the most appropriate models of organization of wages, which would ensure a close relationship between the qualification of worker, the complexity of work and the results of the work.

The study of the techniques of some foreign consulting firms on the construction of models of graded wages showed that virtually all of them, to some extent, do not comply with the above standard materials (Uniform tariff and qualification schedule of jobs and occupations of workers and the Qualification schedule of managers, professionals and other employees). This particularly relates to the use of not complying with these directories indicators to measure the complexity of work performed. Therefore, we can assume that the currently used in individual enterprises grading models of payment, to a certain extent, not fully comply with applicable labor laws. In view of the foregoing, there is an objective need for such a methodological framework that solves all the omissions.

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## KOMPENSAVIMO MODELIŲ RAIDOS TENDENCIJOS KAZACHSTANO RSPUBLIKOJE

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### Santrauka

Darbo užmokesčio gerinimo klausimas yra svarbus visoms postsovietinio bloko šalims, taip pat ir Kazachstanui. Pažymėtina, kad vis dar nėra efektyvių rinkodaros mechanizmų darbo užmokesčiui gerinti įmonėse. Nepakanka efektyvių priemonių darbo užmokesčio kompensavimo modeliams sukurti. Darbo užmokesčiai neatitinka atliekamo darbo, jis nevienodas įvairiuose regionuose, pramonės šakose ar profesinėse darbuotojų grupėse. Minėti veiksniai ir sąlygojo temos aktualumą.

Pagrindinės sąvokos: darbas, darbo užmokesčio sudedamosios dalys, Kazachstanas, darbo užmokesčio kompensavimo modeliai.

**Pagrindinės sąvokos.** darbas, darbo užmokesčio formavimas, Kazachstanas, darbo užmokesčio apmokėjimo modelis.

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