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**TOP MANAGERS' MONETARY REWARD: AN APPROACH
BASED ON INTEGRATION OF COMPETENCE
AND PERFORMANCE MANAGEMENT**

In the present article the expediency of top managers' monetary reward with an approach based on integration of competence and performance management has been justified. Efficiency of the application of performance management method using the key performance indicators is reasoned. A methodology for determination of the variable part of top managers' monetary reward is suggested.

Keywords: top managers' reward; competencies; performance; key performance indicators; system of bonuses; personnel motivation system.

JEL classification: J33, M12, M52, P17.

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**ВИНАГОРОДЖЕННЯ ТОП-МЕНЕДЖЕРІВ: ПІДХІД,
ЩО ҐРУНТУЄТЬСЯ НА ІНТЕГРАЦІЇ УПРАВЛІННЯ
КОМПЕТЕНЦІЯМИ ТА РЕЗУЛЬТАТИВНІСТЮ**

У статті обґрунтовано доцільність винагородження топ-менеджерів з урахуванням підходу, що ґрунтується на інтеграції управління компетенціями та результативністю. Обґрунтовано використання методики "performance management" на основі ключових показників ефективності. Запропоновано методику визначення змінної частини грошової винагороди топ-менеджерів.

Ключові слова: винагородження топ-менеджерів; компетенції; результативність; ключові показники ефективності; преміювання; система мотивації персоналу.

Форм. 3. Табл. 1. Літ. 12.

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**ВОЗНАГРАЖДЕНИЕ ТОП-МЕНЕДЖЕРОВ: ПОДХОД,
ОСНОВАННЫЙ НА ИНТЕГРАЦИИ УПРАВЛЕНИЯ
КОМПЕТЕНЦИЯМИ И ЭФФЕКТИВНОСТЬЮ**

В статье обоснована целесообразность вознаграждения топ-менеджеров с учетом подхода, который основан на интеграции управления компетенциями и эффективностью. Обосновано использование методики "performance management" на основе ключевых показателей эффективности. Предложена методика определения переменной части денежного вознаграждения топ-менеджеров.

Ключевые слова: вознаграждение топ-менеджеров; компетенции; результативность; ключевые показатели эффективности; премирование; система мотивации персонала.

Introduction. Labor efficiency is one the most essential factor which contributes to enterprises' development. Nowadays, achievements of this efficiency are mostly provided by employees' financial incentive and peculiarities of development of wage's variable part. In current conditions top managers' effective activity is extremely important in achieving enterprises' efficiency and high competitiveness. This is because this category of employees becomes a management tool which creates necessary conditions (organizational, technical, social, psychological etc.) for achieving

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enterprising goals, provides coordination and labor activity agreement for all employees to achieve particular results. This significant top management's role in implementation of enterprise's strategic plans highlights the issue of competence approach' implementation for formation, maintenance and development of competencies needed for plans' performers. The key focus in this aspect is staff motivation for competencies' development and qualification improvement. One of the ways to increase personnel motivation is the establishment of relation between wage system and indicators which allows evaluating the performance. Considering the abovementioned states, an integration of competence management and performance management based on the key performance indicators (KPI) system is proposed for further top managers' incentive mechanism development.

Latest research and publications analysis. The problems of using competence approach at enterprises were investigated by I.A. Gruzina (2011), O.V. Chumachenko and S.V. Pozdnyakova (2012), Jr. L.M. Spenser and S.M. Spenser (2005), I.B. Shvets (2011) and others, whose scientific works generally represents the issues of the competency model development for employees of various levels and approaches to personnel estimating via using competency models.

The staff monetary reward problem based on performance is reflected in the works of such scientists and specialists as C.D. Aubrey and E.D. James (2004), D.P. Bohynya et al. (2001), V.M. Grinyova and O.M. Yastremskaya (2006), A.M. Kolot (2007), A.K. Klochkov (2010), D. Parmenter (2010), E. Vétlugskih (2008) and others.

Unresolved issues. The analysis of researches indicates great scientists' attention to the expediency of employees' monetary reward calculations for their labor performance in the analysis of total personnel performance. But insufficient attention has been paid to competence approach in calculating of monetary rewarding sum for labor results. This aspect had determined the focus of this article.

The research objective is to develop proposals on the improvement of top managers' compensation system by using the integration approach that combines competence management and performance management.

Key research findings. In the personnel motivation system material factors play an important role. They not only provide fully satisfaction of the material needs, but play the role of moral and status incentives in the case of the growth of wage and bonuses level as one of the forms of social estimation of the employee's labor contribution (Kharoon, 2010). Regardless the motivation factors type, most incentives have value terms.

The most feasible financial incentives for implementation by domestic enterprises are the elements of variable part of monetary reward. This is because:

- variable part of monetary reward, unlike the basic one, doesn't need continuous growth of expenses and takes into account employees' personal differences which can influence the labor productivity;
- unspent funds can be used in the next reference period;
- necessity of earning the right to award motivates personnel for continuous improvement etc.

In literature a number of different variable wage systems are offered. Research shows that one of the most common of them is the performance-based pay. In order

to establish the relation between rewards and indicators' system, which measure the employees' labor performance, the performance management method based on the KPI system is used most often (Vetlugskih, 2008). Benefits of using such method are the systematization of management process through goals determination, possibility of objective personal evaluation, providing employees' focusing on result and therefore improving the total efficiency of enterprise activity.

It should be mentioned that in case of using such method for designing top managers' incentive system, there is an estimation problem focused on a such important characteristics of this staff category as: level of special knowledge, skills and experience; creative potential; business and professional qualities needed to achieve specific goals and tasks.

Unlike with performance-based pay, to establish the dependence of the reward amount on the results of potential estimation and professionalism level of senior executives appropriately we use the competence approach as a basis for incentive system. But there is a weakness of this approach which doesn't allow considering individual contribution of each employee in the enterprise total success.

To leverage the strengths of the considered approaches and to neutralize their weaknesses these should be an approach that combines competence management and performance management, both used as a basis for developing top managers' system of bonuses. Combining these two methods would improve staff effective motivation, giving an opportunity to encourage their growth and learning, developing new areas of competency, self-management and innovation. Therefore, the process of determination of top managers' variable part of material rewarding should be presented in the following sequence of steps:

1. Designing the performance management system on the base of KPI for evaluating staff labor efficiency.

1.1. Setting strategic goals and KPI of enterprise according to SMART-rule and current enterprise reporting system.

1.2. Cascading goals and KPI to the senior executives' level. This process envisages defining employees' goals, which can contribute to achieving the overall strategic goals, defining individual goals (economic, social, professional etc) and proper weighted KPI with planned values.

2. Development of managerial competencies evaluation system with the usage of competency models. This process envisages defining the set of top managers' competencies needed to perform the work with defining their weights and scaled levels of competence demonstration. It's recommended to use a five-point scale for measuring staff performance of competencies.

3. Practical steps on calculating top managers' competency- and performance-based monetary reward amount.

3.1. Determining top managers' performance values (PV_j) in achieving established strategic goals by the following formula:

$$PV_j = \sum_{i=1}^n (K_{ij} \times W_{ij}), \quad (1)$$

where K_{ij} – the adjustment coefficient of accomplish KPI i by employee j , which determine the rate of KPI attainment (calculated basing on the previously developed

scales, which determine the dependence of K_{ij} values and the range of actual KPI values); W_{ij} – specific gravity of KPI i in the KPI system of employee j ; n – the number of employee' KPI.

3.2. Evaluation of individuals based on competencies by the formula:

$$\bar{C}_j = \frac{\sum_{i=1}^m (M_{ij} \times W_{ij})}{m}, \quad (2)$$

where \bar{C}_j – the average top manager's competencies rating; M_{ij} – point score of proper level of competence i demonstration by employee j ; W_{ij} – competence i weight in the competency model of employee j ; m – the number of competencies in the competency model.

3.3. Calculating top managers' monetary reward amount (MR_j) by the following formula:

$$MR_j = \frac{S_j \times P \times PV_j \times KC_j}{100\%}, \quad (3)$$

where S_j – an employee' base salary; P – bonus percentage of salary; KC_j – adjustment coefficient of j employee's competencies rating determined based on Table 1.

Table 1. Adjustment coefficient value of competencies rating depending on the value of average competencies rating, authors' calculations

| Indicators | Ranges of indicators value | | | | | |
|-------------|----------------------------|---------|---------|---------|---------|-------|
| | 1.0–1.9 | 2.0–2.9 | 3.0–3.4 | 3.5–3.9 | 4.0–4.4 | 4.5–5 |
| \bar{C}_j | 1.0–1.9 | 2.0–2.9 | 3.0–3.4 | 3.5–3.9 | 4.0–4.4 | 4.5–5 |
| KC_j | 0.2 | 0.4 | 0.6 | 0.8 | 1 | 1.2 |

Conclusions. The analysis of the theoretical aspects and practical experiences of financial incentives of personnel demonstrates that performance-based pay is the most popular and commonly used compensation system. Because of some weaknesses of performance-based pay it may be advisable to combine competence management and performance management and use both as a basis for developing top managers' system of bonuses. An appropriate approach to the determination of the variable part of top managers' monetary reward has been recommended. Its implementation would allow increasing top managers' motivation to realize enterprise's strategic goals and encourage the development of individuals' behaviors and skills that reflect the overall business strategy.

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