Cost Impact of Clean Wage System: A Case Study of Pakistan Petroleum Limited

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Abstract: Clean wage is the new concept in compensation and benefit for employees there all allowances are amalgamated under one head and that may be basic salary. The allowances may include employee entitlement in cash (monthly or time dependent) or non-cash i.e. allowances in kind. Clean wage was implemented in Pakistan Petroleum Limited (PPL) with effect from 01 July 2008 to make motivation factor work in PPL. And act a toll of retention of employees. This research concludes that the employee motivation factor not only depends upon the monetary benefits. There must be other factors influencing employee’s retention and performance.

Key words: Clean Wage, HRM, Turnover, Employee Motivation, Employee Salary & Compensation

INTRODUCTION

These days the main problem associated with Human Resources Department in E&P (Exploration & Production) Companies (Oil and Gas producing) is the retention of high skilled manpower. The monetary benefits that are being offered by off shore Companies far supersedes the perks offered by local E&P Company. Over the last few years the Pakistan Petroleum Limited (PPL) is constantly losing high skilled employees to foreign as well as global E&P companies operating in Pakistan.

However, high employee turnover is a big challenge for employers and no any organization suppose to letting a valuable employee to work for their competitor in the same industry. Employee’s frequent switches may inflict a considerable financial and productivity damage to the companies. “… moreover it is the primary reason why employers should understand that only money-motivated employee is a potential vermin of the company (www.custom-essays.org)...” The Concept of Clean wage resolves around the amalgamation of allowances in basic salary. The monthly gross salary comprises of all allowances, cash or kind (non-cash) under single /or one head.

1.1. Problem Statement:

This study intends upon resultant of following questions:

- Will it affect employee satisfaction?
- Is there difference in employee turnover in context of pre and post implementation?
- What real difference Company has made for employees?
- What will be financial impact?
- Will employee get benefit out of this new remuneration system?

1.2. Research Objectives:

- To study the effect of clean wages system in retaining employees.
- To find out is clean wage beneficial to employees in long run.
- To find out whether clean wage is cost neutral for both employees as well as organization.

Research methodology:

This study will be based on qualitative research and heavily supported by Secondary data that will be complete fringe benefits along with salaries of employees collected from payroll section of Finance Department. Human Resource Department, Recruitment Section will be requested for their contribution in respect of employee joining and leaving statistics for pre and post implementation analysis.

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2.1. Sampling:

Entire management staff is divided into 11 different job groups from lower to higher (i.e. 3 to 13) where most heavily populated are the lower groups. Lower percentage of sampling from highest populated job groups, larger the job group lower will be the percentage.

2.2. Scope of the Research:

This research will be based on Management staff which comprises of 836 (as on 11th November 2008) in total. Out of complete population the sample size will be 100 representing all job groups (i.e. 3 to 13).

Research will be carried out on complete remuneration package including all cash benefits and research for future benefit for employees will be calculated on flat rate of 18 % which comprises of 10% as ‘Cost of Living – COLA’ and rest of 8% as ‘Merit increment’.

The entire working will be done on financial period (July –to– June) basis rather the on Calendar period (January –to– December). In PPL annual appraisal is conducted on financial period and similarly the clean wage was also implemented with effect from 01 July 2008.

4. Literature Review & Theoretical Foundation:

4.1. Clean Wage & Motivation of Employees:

Clean wage system has been introduced as a tool of retention. ‘Clean wage’ is referred to as salary that is inclusive of any allowances (Sujani, 2003). It may be possible that clean wage may also include all the benefits either in cash or kind. When all benefits and allowances are merged with basic salary and paid upfront per month, that will be more in quantity as disposable income increases to support livelihood and buyout the other needs.

The perceived impact could be implementation of ‘Clean Wage’ as tool of retention for employees as salary and benefits are paid upfront in cash, merged in per month salary rather to wait for time bound benefits.

People about is the concept of ‘Clean Wage’. This idea has nothing to do with corruption. The idea here is that instead of couching remuneration is obscure fringe benefits, we just pay everyone upfront in cash and let them figure out how them want to purchase benefits for themselves (kwayteowman.blogspot.com).

Profound early researches indicated positive relationship between monetary rewards and high employee motivation and more or less one and all in or outside an organization are given priority to monetary benefits over non-monetary perquisites.

It is also presumed that employee high degree of performance is genuinely provoked by their financial rewards. Mae Lon Ding reported that “… in jobs where significant variability in pay occurs in compensation and where it is closely related to key performance factors, then pay can be a big motivator…”

4.2. Salary as Retention Tool:

Every employee will have his or her own definition of what it means to be satisfied intrinsically or extrinsically. Practically every employer is constrained to retain their employees and regular employee resigning or switching may lead to increase costs associated with hiring and retraining new employees. The best way to retain employees is by providing them with job satisfaction and opportunities for advancement in their careers (www.mintrac.com.au).

Moreover employee satisfaction leads to increase job productivity, employee creativity and he/she be more likely to be retained by the company. Notable researchers Ahmed & Fariduddin 2005; Eskildsen & Dahlgaard 2000; Kim 2000; Kirby 2000; Lee 2000; Money 2000; Wagner 2000 reported that “…I t is significant to pay more is supposed to be most important factor by the blue-collar workers, but it ranked as the least important for white collar workers….”. Furthermore, according to Maslow’s hierarchy need theory and the probable critical analysis what can be made on its basis of the problem of money as a motivator leads to the understanding that a worker will never reveal his full potential only because of the monetary motivation (www.custom-essays.org)?

4.3. Motivational factors; are they chronological?

R. Lindner (1998) argues that “… a comparison of these results to Maslow's need-hierarchy theory present various interesting insight into employee motivation. The number one ranked motivator, interesting work, is a self-actualizing factor. The number two ranked motivator, good wages, is a physiological factor. The number three ranked motivator, full appreciation of work done, is an esteem factor. The number four ranked motivator, job security, is a safety factor…”. The above clearly elaborates the motivational factor in different stages of life. Each stage has its own needs and requirements. With the passage of time the need / requirements changes and so does the motivational factor.
On other hand if higher need is catered first by the employer before the lower stage needs are satisfied or accomplished then it is suffice, on contrary to Maslow, who concluded that lower level needs must be met before moving to next higher level (R. Lindner, 1998).

Moreover Kovach (1987) in his study of industrial employees ranking reported the employee motivation hierarchy as (a) interesting work, (b) full appreciation of work done, and (c) feeling of being in on things. Whereas, Harpaz (1990) listed his findings in following order of motivational factors: (a) interesting work, (b) good wages, and (c) job security. Salary package is not ranked among the top motivation factors by Kovach whereas; in Harpaz study it is second most important factor after interesting work.

4.4. Clean Wage in Pakistan Petroleum Limited:
Clean wage was implemented in Pakistan Petroleum Limited, PPL with effect from 01 July 2008 only for the management staff.

4.5. Implementation of Clean Wage on Cost Neutral Basis:
The Board of Directors has given their approval for implementation of clean wage in December 2007 for implementation in July 2008. The basic concept behind the clean wage is to implementation on cost neutral basis. There would be no additional financial burden on the Company neither the employees would be suffered.

The cash allowances like Bonus (every 3 years), leave fare assistance (once a year), additional overseas leave fare assistance (every 3 years) become part of amalgamated salary under one head to strength the disposable income for retention of employees.

4.6. Salary Structure in PPL:
As the first phase of implementation all cash benefits as listed below become part of clean wage system in PPL:

1. House Allowance
2. Conveyance Allowance
3. Utility Allowance
4. Dearness Allowances
5. COLA – A
6. COLA – B
7. Bonus
8. Leave Fare Assistance (LFA)
9. Additional overseas Leave Fare Assistance (AOLFA)

Above mentioned allowances and percentage varies with the ‘Job Group’, which will be further discussed in next section of this research report. All allowances are part of monthly salary including basic salary of an employee.

RESULTS AND DISCUSSION

5.1. Cash Benefits Part of Monthly Salary:

<table>
<thead>
<tr>
<th>ALLOWANCE</th>
<th>JOB GROUP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3 – 6</td>
</tr>
<tr>
<td>Housing (in %)</td>
<td>45</td>
</tr>
<tr>
<td>Conveyance (in %)</td>
<td>20</td>
</tr>
<tr>
<td>Utilities (in %)</td>
<td>10</td>
</tr>
<tr>
<td>Dearness (in %)</td>
<td>45</td>
</tr>
<tr>
<td>COLA – A</td>
<td>45</td>
</tr>
<tr>
<td>COLA – B</td>
<td>20,000</td>
</tr>
</tbody>
</table>

All above cash allowances are in percentage of Basic Salary except for COLA – B, which is in fixed amount.

Source: HR Department PPL

5.1.1. Total Impact of Allowances
Above given chart clearly reflects the percentage of allowances with respect of Basic Salary. The Allowances as a part of gross salary is:
Following are the cash benefits which are not part of monthly salary, but are time bound and become part of clean wage system in PPL:

<table>
<thead>
<tr>
<th>ALLOWANCE</th>
<th>JOB GROUP</th>
<th>3 – 6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonus</td>
<td>3 Basic Salary after every 3 years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LFA</td>
<td>Every Year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AOLFA</td>
<td>N / A Every Year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source : HR Department PPL

5.2. Salary Structure after Implementation of Clean Wage:

All below mentioned allowance have been amalgamated under one head i.e. ‘Basic Salary’.
1. House Allowance 
2. Conveyance Allowance 
3. Utility Allowance 
4. Dearness Allowances 
5. COLA – A 
6. COLA – B 
7. Bonus 
8. Leave Fare Assistance (LFA) 
9. Additional overseas Leave Fare Assistance (AOLFA)

Percentage of all allowances varies with the Job Group, so in order to maintain single rule for clean wage formula has been worked out.

For standardization of clean wage the working formula is as under:

<table>
<thead>
<tr>
<th>Aggregate %</th>
<th>JOB GROUP</th>
</tr>
</thead>
<tbody>
<tr>
<td>230 % for all JG</td>
<td></td>
</tr>
</tbody>
</table>

Source: HR / Finance Department PPL

After adjusting the formula of 230% if any amount is less or in surpluses depending upon Job Group and Allowances entitlement then during the clean wage that will be adjusted through another head called “General Allowance”.

The entire working of clean wage revolves around:

Work out Formula for clean wage = BASIC SALARY (at 230%) 
Rest of the amount (For justification) = GENERAL ALLOWANCE

5.3. Employee Turnover & Cost Impact:

5.3.1. Employee Turnover Prior Clean Wage:

As per data provided by Human Resources Department the employee turnover is as follows:

<table>
<thead>
<tr>
<th>STAFF STRENGTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
</tr>
<tr>
<td>For the Period 2006-07</td>
</tr>
<tr>
<td>a) No. of management staff (30 June 07)</td>
</tr>
<tr>
<td>b) No. of staff resigned</td>
</tr>
<tr>
<td>c) No. of staff retirement</td>
</tr>
<tr>
<td>d) Other reasons *</td>
</tr>
<tr>
<td>TOTAL (discharge) (b+c+d)</td>
</tr>
<tr>
<td>TURNOVER (Resignations)</td>
</tr>
</tbody>
</table>

* Other reason may include early retirement / separation due to death / termination
(2007-2008)

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>For the Period 2007-08</td>
<td></td>
</tr>
<tr>
<td>a) No. of management staff</td>
<td>828</td>
</tr>
<tr>
<td>(30 June 08)</td>
<td></td>
</tr>
<tr>
<td>b) No. of staff resigned</td>
<td>58</td>
</tr>
<tr>
<td>c) No. of staff retirement</td>
<td>19</td>
</tr>
<tr>
<td>d) Other reason *</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL (discharge) (b+c+d)</td>
<td>106</td>
</tr>
<tr>
<td>TURNOVER (Resignations)</td>
<td>7.1 %</td>
</tr>
</tbody>
</table>

* Other reason may include early retirement / separation due to death / termination

5.3.2. Employee Turnover after Clean Wage

Clean wage was implemented w.e.f. 01 July 2008. Till November 2008 there are 5 months in total to calculate proportionate employee turnover after clean wage.

(2008-2009)

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>For the Period (Till Nov 08)</td>
<td></td>
</tr>
<tr>
<td>a) No. of management staff</td>
<td>832</td>
</tr>
<tr>
<td>(Nov 08)</td>
<td></td>
</tr>
<tr>
<td>b) No. of staff resigned</td>
<td>25</td>
</tr>
<tr>
<td>c) No. of staff retirement</td>
<td>8</td>
</tr>
<tr>
<td>d) Other reason *</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL (discharge) (b+c+d)</td>
<td>33</td>
</tr>
<tr>
<td>TURNOVER (Resignations)</td>
<td>7.2 %</td>
</tr>
</tbody>
</table>

* Other reason may include early retirement / separation due to death / termination

5.3.3. Summarization of Employee Turnover:

<table>
<thead>
<tr>
<th>EMPLOYEE TURNOVER</th>
<th>Employee Turnover (%age)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Year</td>
<td></td>
</tr>
<tr>
<td>2006-7</td>
<td>5 %</td>
</tr>
<tr>
<td>2007-8</td>
<td>7.1 %</td>
</tr>
<tr>
<td>2008-09 (Till November 2008)</td>
<td>7.2 %</td>
</tr>
</tbody>
</table>

It is evident from the research finding that turnover is on rise, climbing from 5 % to 7.2 %.
5.4. Cost Impact of Clean Wage:

Research shows that the current impact of clean wage system has been adjusted through ‘General Allowance’.

As elaborated earlier, the clean wage formula is computed on the basic of 230% for standardization in all Job Group. But since prior to clean wage system each job group has different percentage of allowance with respect to Basic Salary.

After computing the clean wage, few employees are getting more amount as gross salary then their actual entitlement, that excess amount is deducted through ‘General Allowance’. On contrary the staff getting fewer amounts is also adjusted by adding respective amount under ‘General Allowance’.

6. Conclusion & Recommendations:

6.1. Clean Wage as Motivator:

After implementation of Clean Wage system it was perceived by the Pakistan Petroleum Limited that the amalgamation of all cash allowances in monthly salary will help Company in retaining trained and high skilled manpower. The new salary not only comprises of allowances which employees are already getting but also other benefits which are paid on specific time (time bound). The new remuneration system indeed has strengthened the salary as employee has more ‘Disposable Income’ as compared to previous one.

In the above context it is pertinent to mention that the employee turnover has been constantly on rise, moving from 5 percent to 7.2 percent. Even after Clean Wage system the employee turnover rate is climbing. This clearly shows the salary is not the only reason behinds the employee retention and motivation, there may be other reason as well as since even implementation of clean wage has no impact on employee turnover.

6.2. Cost Impact of Clean Wage:

It is evident from the findings that clean wage was implemented on cost neutral basis. In current scenario there is no additional cost impact of clean wage system i.e. neither Company has incurred any additional expense or employee have faced any financial loss as per their entitlements.

As per discussion with several management employees of the Company, it has been highlighted that in general there are no grievances regarding the new remuneration system. As they are getting more cash in hand as disposable income.

Working done for future impact also shows no impact of what so ever on Company or employee.

6.3. New Dimension from Findings:

It has been observed in current scenario there is no financial impact for both Company as well as for employees.

But in long run when employees will be promoted there will be certain allowances which are job group depended, they will be not accounted for in future.

For example, staff promoted from job group 9 to 10 will not get the proportionate amount of ‘Cola – B’ which was applicable in job group 10 prior the clean wage.

Same will be case for when employee promoted from job group 6 to 7, employee will not going to get proportionate amount of ‘AOLFA – Additional Overseas Leave Fare Assistant” which is amounted to 3 basic after every 3 years.

It can be concluded that, the entire clean wage activity is not so cost neutral. It may be in case of current scenario or for future with other things like promotions remains constant.

In the above context it is pertinent to mention that, there will be promotions for the next year. The employee will be affected if promotion increment is not properly adjusted according and foremost internal equity should also be maintained at all cost.

REFERENCES

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ww.accel-team.com/motivation/index.html (extracted from reference no. 3)


