

# An Analysis Model to Identify the Optimal Salary and Its Impact at the Level of an Economic Entity

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## Abstract

*The paper presents some theoretical and practical approaches realized as a result of the request of a collaborator of the institution of a thematic analysis. In this context, the information need was largely obtained from the thematically conducted interview and discussions on REVISAL technical-operational and accounting documents, on the legislation on staff salaries and rewards, on the fiscal discipline and on the annual financial statements. The scientific principles and approaches regarding managerial styles and the significant indicators for this case were identified. The trends of these indicators were also presented and the optimal salary expenditures were highlighted, together period and the effects with an impact in the efficiency of the management style practiced, in the further optimization of the salary expenses, in the increase of the level of personnel motivation and the assurance of high performances of the managed economic entity.*

**Key words:** manager, human resources, salary, economic entity, performance

**J.E.L. classification:** E24, M12, M20.

## 1. Introduction

A thematic analysis was demanded by a collaborator of our institution in order to help the manager in conducting a proper management and to optimize salary expenses, together with increasing personnel motivation and to insure high personnel performances. Thus, after carefully structured interviews and discussions with the managers of the enterprise, but also with human resources and accounting representatives the information gathered on the evolution of the company was subjected to an analysis, keeping in mind the legislation in force and the significant indicators for each department analysed.

## 2. Theoretical background

Analyzing the relevant literature in reward management and the continuously changing legislation, a consensus was reached with renowned specialists on the economic entity that would represent from the perspective of HRM "a group of people who carry out joint activities aimed at achieving one or more goals" (Nicolescu O., 2003).

Therefore, from a predominantly socio-human perspective, the economic entity must be seen as a rather structural system, of employee interaction, as a managerially community oriented towards pursuing goals aimed at continuing the operation of the entity in terms of efficiency and profitability. Thus, one can see that the economic entity can be approached from two managerial perspectives: a functionalist one, according to which its issue is subordinated to the achievement of performance through work processes that are practically the means of fulfilling the purpose of the entity and employees thus benefit from great "power" (Nicolescu O., Verboncu I., 2004), to fully highlight their contribution to the generation of efficiency in activity and implicitly of profit. The second perspective is a more democratic one, which offers the entity's employees a much greater space for self-control over the most decisive aspects of their work and employee life within the entity.

This results in the fact that the staff of the economic entity participates both in achieving its goals and in satisfying its own interests, and the entity in turn is at the same time: a source of change and social motivation, fully responsible for present and future successes and social failures, present and future, from salaries and other incomes assimilated until the pensions period and subsequent support for the family or descendants as the case may be.

Although the managers and executives of an economic entity, together, constitute the human resources or the personnel of the entity (personnel expenses being an element of balance), managers remain the dynamic element of the economic entity. The managers are the ones that through the control they have on decision-making structures, energize the entity and society in general, because they can use employees, financial resources, information and materials to work with, they develop business, which in turn generates added value that results in the well-being of all staff, families and implicitly the society.

It can be easily seen that in the current knowledge-based economy, human resources and information resources are becoming increasingly important for the effectiveness of the entity management and efficiency due to the increasing importance of individual and organizational knowledge and learning. Thus, in an economic entity, the key element of the managers' work is the work with the company's staff and the recognition of work results through reward, the main responsibility being: to support the entity and achieve the desired performance by using with maximum efficiency all available resources, especially those of human resources that have always been highlighted as the only creators of value in any entity (Andreş S., 2009).

Thus, one can appreciate that the main task of the manager remains that of identifying the needs and ways to take action, to ensure adequate motivation and train employees, in order to increase work efficiency, including the performance of the economic entity they are part of. But starting from the analysis of the long evolutions in the field, it can be seen how the content of the personnel policy was continuously diversified, the finality of the personnel function being a double one, namely (Mathis R., 1997):

- It should first achieve the integration of social objectives into economic objectives, more precisely to reconcile economic constraints with the needs of human and social development;
- Next, it should integrate, coordinate, the various aspects of human resources management in a social policy - the social framework of the company's strategy: from policies, social relations and the integration of people in working teams and staff management, with the aim of ensuring normal operation using methods, procedures used depending on the traditions of the entity, its field of activity, the general and specific legislation in force, but also the qualification of the staff employed.

Between the management and human resources management systems aiming at the efficiency of the economic entity activity and the high economic-financial and social performances, it is considered that the most sensitive aspect can be represented at present, by the implementation of a system of rewards and appreciation of professional performances of the staff, although the managers have at their disposal the legislation in the field and its facilities, especially in this last period, a welcomed legislation in support of the resilience of the businesses affected by the Pandemic period. What is interesting in most entrepreneurs, with whom we had a number of thematically directed discussions and interviews, is in fact the finding of an optimal level of those expenses with salaries that allow businesses to remain viable if not profitable. Thus, an analysis at the request of the entrepreneur from an economic entity in Resita, in the design business (leather-textiles), in the pre-pandemic period was realized and the research will be extended in and post-pandemic period.

### **3. Research methodology**

In order to perform the analysis to establish the optimal level of salary expenses, in fact the only rewards granted at the date of analysis, the most relevant indicators from the annual financial statements were selected (mfinante.ro), from balance sheets and payrolls prepared for the period July-December. The indicators chosen were used in the calculation of labour productivity - the most relevant synthetic indicator having the greatest force in expressing the efficiency and viability of the business, thus finalizing a table with the main indicators used to assess the level of wage

expenditures (table no. 1.).

Table no. 1 The main indicators in assessing the level of wage expenditures in the analyzed economic entity

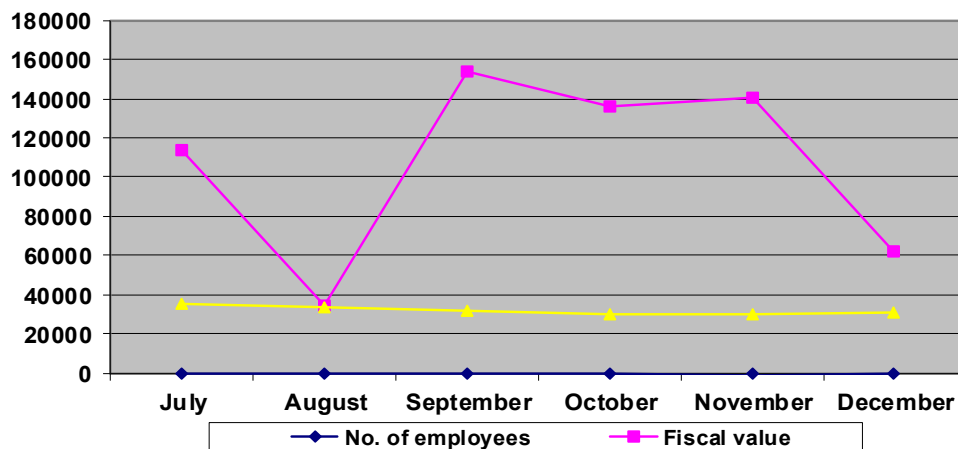
INDICATORS	REFERENCE YEAR					
	July	August	September	October	November	December
No. of employees	51	50	47	48	44	45
Turnover	113.702	34553	153955	135875	140794	62025
Profit	6990	-36437	30944	60963	70234	-163388
Salaries fund	44948	36866	39478	38654	38656	36435
FS index	0.99	0.82	1.07	0.98	1	0.94
$FS_1$						
$FS_0$						
Work productivity Turnover	2209,45	691,0 6	3275,64	2830,73	3199,86	1378,33
$N_e$ (No. of employees)						
Work productivity growth index $W_{m1}$	1,04	0,31	4,74	0,86	1,13	0,43
$W_{m0}$						
Vouchers expenditures	9387	3303	24910	9387	7740	25453
Salaries expenditures	35279	33427	31765	30247	30411	30630

Source: Realized by the author

#### 4. Findings of the analysis of synthetic indicators

In order to analyze the evolution of relevant indicators in solving the issue proposed and their trends, but also to identify the optimal level of salary expenditures in order to maintain good practices and implicitly the already loyal staff, the graphical representations and their interpretations are also presented.

Figure no. 1 Tendencies of the indicators  $N_s$ , Turnover, Salary expenditures during the period July-December of the reference year



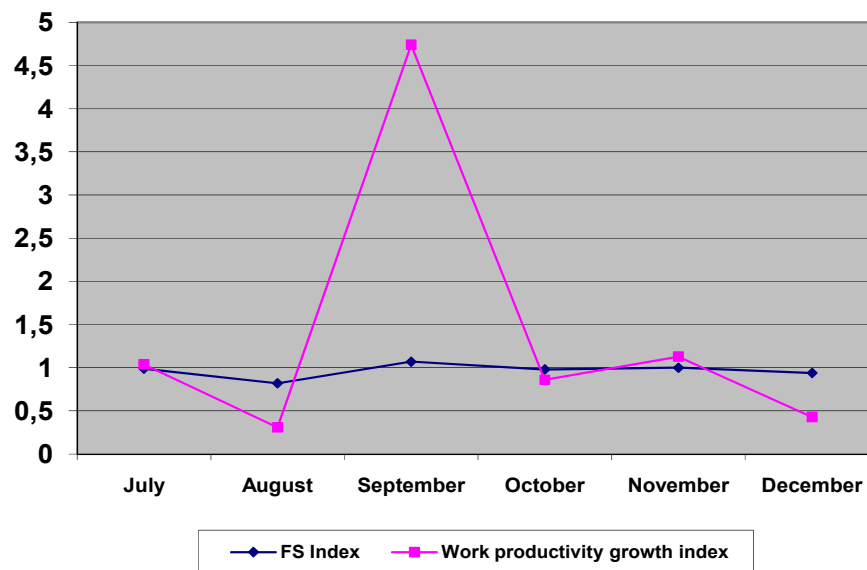
Source: Realized by the author

Thus, one can be observe in figure 1., which are the tendencies of the indicators  $N_s$ ,  $CA$ , Salary expenditures during the period July-December of the reference year.

During the period subjected to this analysis, one practically sees the efforts to maintain the number of employees, the approximate maintenance of the salary level, with a tendency of significant regression of the indicator of salary expenditures in July and December, due to the dependence on mandatory leave periods of customers, especially external ones, implicitly the lack of orders.

The situation represented actually reflects the achievement of the optimal level of wage expenditures in September, when the economic entity registered a significant increase in turnover, implicitly of work productivity, a period during which both the current orders and the orders from periods when holiday leaves were registered were practically honoured.

Figure no. 2 Tendencies of indicators  $F_s$ ,  $W_m$



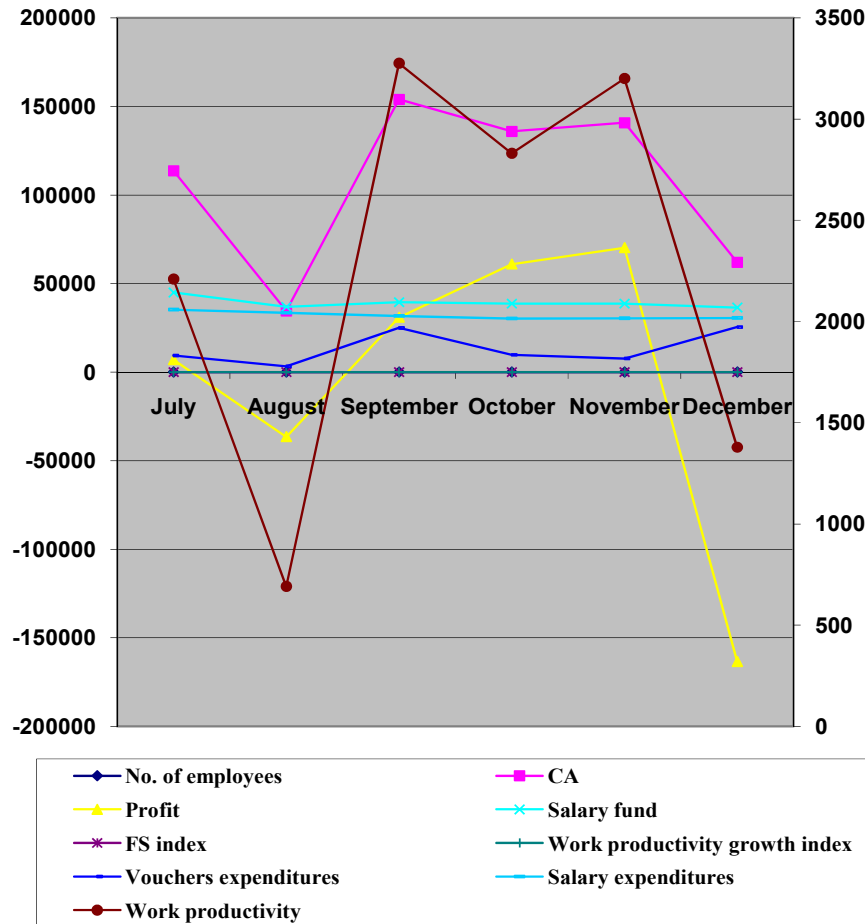
Source: Realized by the author

The previous representation shows the decrease rates, but also the increase of those indices that must always be correlated for work efficiency, the rates being approximately similar, except for the month of September, when significant advance of the wage growth index can be observed, influenced by the work productivity growth index, an advance due first of all to the loyalty of the staff by granting meal vouchers in September and then to the increase of the production implicitly to the fulfilment of the previous orders.

Moreover, the result is correlated with the one in the case of the previous figure, figure 2, reflecting the achievement of the optimal level of salary expenses implicitly of the salary fund, again for the month of September.

From the figure 3, one can see clear the manager's abiding of the economic unit of staff rights, ensuring the maintenance of the number of employees and the compliance with contractual provisions, granting salaries only in accordance with the employees' work performance, all reflected in a growing company performance, expressed by these indicators considered relevant, the indicators  $Ca$ ,  $P$ ,  $W_m$ , their values and trends being influenced by the level of these expenses with salaries, the optimum of which was found in all cases, during the month of September of the reference year.

Figure no. 3 Synthesis of the trends of the general indicators presented in table 3.1



Source: Realized by the author

## 5. Conclusions

One can appreciate that the enterprising manager proposed such an analysis, proving that he is concerned with both production and work efficiency which actually gives him an efficient leadership style (first identified by W.I.Reddin in Mihaş, I., 1998) and with employees who have to meet all the needs at the job offered, especially since within the managed economic entity, the responsibility for this field of human resources rests solely with the manager and a person employed as a human resources inspector. At the same time, by analyzing the method of calculating and granting personnel rights, it can be seen, first of all, the abidance of the legal regulations in force, implicitly of the Romanian Constitution, the manager being permanently concerned, as he stated, with:

- The insurance of stable jobs, without any personnel fluctuations;
- The insurance of protection and safety at work by drawing up bilaterally signed forms, by arranging sanitary point inside the registered office, by incurring expenses with amounts that are intended for the special fund, for risk and accidents at work, the health fund, and other contributions in employee support.
- The remuneration only in relation to the quantity and quality of the work performed, as revealed by the trends of the indicators analyzed that practically highlight the observance of the correlation rewards - performance - employee satisfaction, ultimately reflected in loyalty

- to the company, the absence of fluctuation and increased work productivity;
- The guarantee, according to legal provisions, of weekly rest holidays;
  - The guarantee of the annual leave that he paid in advance to employees;
  - The guarantee of sick leave according to the law;
  - The insurance of career opportunities, training with the support of county agency of labour force;
  - The provision of an old-age supplementary pension;
  - The insuring of work conditions for the improvement and specialization, mentoring on qualification fields;
  - The offering of meal vouchers when possible, giving 5 gift vouchers for Easter and Christmas, etc.

Also, the company’s management annually estimates the personnel rights expenses taking into account the current salary system, using a fixed minimum quota and another variable (depending on the performances achieved as well as the rigidity of the necessary personnel to the implicit increase of activity turnover). The analysis of the trends of the indicators calculated in the case study presented above, generally reflects the efficiency of staff costs and in particular the optimal level of salary costs reached in the month of September of the reference year, a level at which the manager desires to maintain, thus knowing the impact not only on the individual performance, but also the overall performance of the entity managed.

The results of this research were based on observations and photographs of specific documents presented and of annual financial statements, study of documentation provided by company representatives and thematically directed discussions with the manager of the responsible economic entity and of human resources, discussions based on precisely the fact that this situation of identifying the optimal level of these expenses for staff, more precisely those with salaries located in September, was repeated annually, from my previous practice of inspection at economic agents in the county. One can say that the situation is common to companies which have this type of object of activity, respectively the tailoring in the Lohn system.

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