

THEORETICAL ASPECTS OF REMUNERATION AND PERFORMANCE IN THE CONTEXT OF PROVIDING GENERAL EDUCATION IN THE CONDITIONS OF LATVIA REGIONAL DISPARITIES

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Abstract. Ensuring a consistently high level of education performance across Latvia is difficult because the current funding arrangements do not provide equal opportunities to pay for all teacher responsibilities in regional and urban schools. As a result, teachers' performance may vary. The article introduces the key elements between remuneration and performance. Remuneration is defined as a motivating factor for employees and the organization. The aim of the study was to investigate the theoretical aspects of remuneration and to identify performance determinants. This article addresses two research questions: 1) whether remuneration and salary have different meanings, and 2) whether remuneration is closely linked to performance. The study used a monographic or descriptive method, a graphical method, and a synthesis and analysis method. The results revealed that remuneration and salary have different meanings. Literature research involves a theoretical framework that reflects the relationship between remuneration and performance. This relationship is based on motivation that has been researched by using equity theory. Remuneration is part of the system as motivational element that provides specific performance in organizations. The system also identified the potential impact of organizational culture and policy on performance. It was also recognized that the level of skills and knowledge can influence performance. The elements of remuneration, performance, motivation, politics and cultural elements of organization are combined in a system. Thus, in the context of current regional development in Latvia, the authors assume that the "Money follows the student" financing model has adversely affected teacher performance, as remuneration is a key motivational component.

Key words: financial remuneration, non-financial remuneration, motivation, regional disparities.

JEL code: I22; I28

Introduction

The issue of the reform of the education system, the need to improve the quality of education, the efficiency and effectiveness of the education system is becoming more and more topical in Latvia. New ideas on the reform of the education system show that the teaching profession has long been at the centre of public debate. One of the most important topics of discussion is remuneration, quality and performance. The teaching profession is becoming increasingly complex and demands are increasing. In contrast, remuneration is not commensurate with the economic changes of our time. This problem is particularly pronounced in schools in the regions of Latvia. Since the introduction of the teacher payroll financing model in 2009, "Money follows the student", there has been a large differentiation in wage of teachers per one pedagogical rate between teachers in large, medium, and small rural schools. Teachers are not provided with fair and motivating remuneration. Teachers organize strikes and pickets expressing their dissatisfaction with low wages. The government, in turn, calls for an increase in the quality of education alongside wage increases, emphasizing that wages go hand in hand with the quality of education. Thus, the study focuses on the relationship between remuneration and performance. Given that no definition of remuneration has been identified in Latvia and that it is currently being compared to salary, it was important to analyse whether the two terms are equivalent.

The aim of the study was to investigate the theoretical aspects of remuneration and to identify the determinants of performance. Tasks of the research: 1) to characterize the financial and non-financial dimension of remuneration; 2) to explore the theoretical basis of performance; 3) to explore

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the relationship between remuneration and performance. The hypotheses put forward in the study: 1. remuneration and salaries have different meanings; 2. remuneration is closely linked to performance. Several research methods have been used: 1. monographic or descriptive method, the application of which helped to find a detailed idea of the problem under investigation from a theoretical viewpoint, based on a broad review of scientific literature; 2. graphic method - using graphical method helped to clearly and efficiently reveal object's relationships and dynamics; 3. method of synthesis and analysis - separate elements of the object under investigation were connected in a single system by studying their interrelations.

Research results and discussion

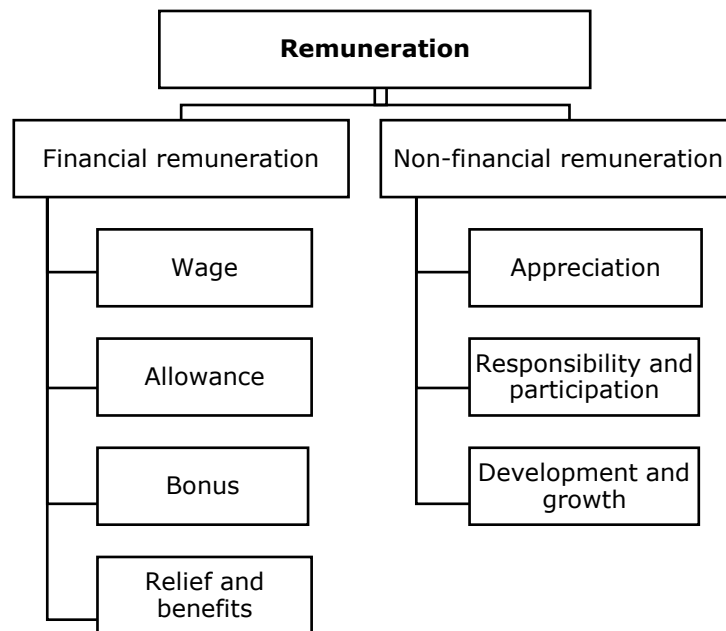
1. The financial and non-financial dimensions of remuneration

The concept of remuneration has emerged quite recently and has a significant impact on remuneration management. WorldatWork (2006) defines remuneration as all tools available to an employee that are used to attract, motivate and retain employees, and includes everything that the employee sees as value. In defining remuneration, P. Thompson (2002) emphasizes that it should include not only traditional, quantifiable elements such as wages and allowances, but also intangible elements such as career prospects, learning and development, self-motivation and work organization quality of working life. The conceptual basis of remuneration is recruitment so that different remuneration processes are interrelated, complementary and mutually reinforcing (Armstrong M., 2006).

There are two main types of remuneration systems, which can be divided into categories - financial remuneration and non-financial remuneration. Financial remuneration plays an important role in retention of the most reasonable and competent employees, thus rewarding them for their excellent work (Olubusayo F. H., Stephen I. A., Maxwell O., 2014; Terera S. R., Ngirande H., 2014). Financial remuneration can be measured as wages, bonuses, transportation options, medical treatment and life and health insurance (Yousaf S., Latif M., Aslam S., Saddiqui A., 2012). F. H. Olubusayo, I. A. Stephen, O. Maxwell (2014) stated that retirement plans, employee funds, and benefit sharing are also one of the benefits of financial remuneration that could attract and retain employees in an organization. Employees' need for financial remuneration is considered an essential element. This has to do with the stress of the high cost of living, especially for workers who have to support a family (Mustapha N., 2013). In addition, employees think that higher incomes might raise the confidence about their future lives (Ozutkua H., 2012).

However, according to J. W. Nyaga (2015), financial remuneration does not affect employees' daily lives, as what employees are really looking for is their work experience and quality. In addition, it is supported by S. R. Terera and H. Ngirande (2014), who stated that financial remuneration is one of the worst motivation factors when companies provide competitive wages. According to D. Jensen, T. McMullen, M. Stark (2007), non-financial remuneration determines why an employee chooses one company rather than another if the financial remuneration is the same. This is a way for organizations to truly stand out from the rest with non-financial remuneration. The nature of work has recently changed workers' demand for incentives, not just financial, but also their need for non-financial incentives (Nyaga J. W., 2015). J. W. Nyaga (2015) also stated that nowadays managers need to be aware of the needs of employees and provide different kinds of remuneration. F. H. Olubusayo, I. A. Stephen, O. Maxwell (2014) found that non-financial remuneration stems from regular psychological needs, such as the need for responsibility and decision-making. In addition,

challenging tasks, career development and recognition could be rewarded by employees who excel in their duties (Aktar S., Uddin Z., Sachu M. K., 2013). B. Nelson (2004) stated that praise and recognition are the most effective remuneration employees want to hear because employees want to feel their contribution to the workplace. He quoted in his article Elisabeth Kanter, who mentioned that remuneration is a right, appreciation is a gift. B. Nelson (2004) also mentioned that appreciation, in particular when displayed publicly in front of other employees, sends positive signals to other employees about what management supports and wants. Based on the analysed literature, the authors developed the scheme of remuneration system, which is presented in Figure 1.



Source: authors' illustration

Fig. 1. **Remuneration system**

The remuneration system consists of financial remuneration: wages, allowances, bonuses, relief and benefits, as well as non-financial remuneration: appreciation, responsibility and participation, development and growth. In the following study, the authors will examine each component of the remuneration system separately.

By analysing the literature on financial remuneration and non-financial remuneration, the authors conclude that financial remuneration is the reward for work. The major part of the financial remuneration consists of the basic wage. In Latvia, the minimum wage for teachers is set by regulatory enactments. Pursuant by the Cabinet of Ministers Regulations No. 445 in 2019/2020 the lowest monthly wage of teachers per one pedagogical rate is EUR 750 (Noteikumi par pedagogu darba..., 2016). Allowances, bonuses are payable in addition to the basic wage and are not periodic and mandatory (except for night work, overtime or public holidays). Allowances are paid for extra work and work in special circumstances. In Latvia, teachers have the opportunity to receive a monthly allowance if, in accordance with the Cabinet of Ministers Regulation No. 501 it has been obtained from one of three possible levels of quality. The level of quality is the result of the evaluation of the professional activities of the teacher and is valid only in the educational establishment where the teacher is evaluated (Noteikumi par pedagogu profesionalas..., 2017). Bonuses are awarded for the overall performance of a company or for a particular employee during a previous period. In Latvia,

teachers may be awarded bonuses by the director of the educational institution within the framework of the salary fund or by the municipality. Financial remuneration also includes relief - designed to make the job easier and benefits - designed to make the job enjoyable and comfortable, support employees at important events in their lives, and encourage employee motivation and loyalty to the employer.

Non-financial remuneration, on the other hand, is out of salary because it is not related to money or remuneration for work reward. Non-financial remuneration are moral values - employer appreciation, gratitude, praise, honour, participation in decision-making, challenging tasks and challenges with greater responsibility, opportunities for development and growth based on the employee's interests and needs.

The authors, when carrying out literature analysis, concluded that there is no definition of remuneration in microeconomics, macroeconomics or Latvian legislation. The word "remuneration" is often heard in Latvian media, but the authors understand that remuneration equates to salary, thinking that the meaning is one. Based on these facts, the authors propose a definition of remuneration based on the definition of salary in the Labour Law: remuneration means the regular rewards to an employee for work, which include the wages and law, collective agreement or contract of employment specified allowances, bonuses and any other reward in relation to work, as well as moral incentives - appreciation, responsibility and participation, development and growth.

2. Theoretical basis of performance

According to G. Bouckaert and J. Halligan (2008), it is impossible to agree on a single definition of performance, and it is remaining indirect in numerous studies. The authors emphasize the fact that performance has different meanings and can vary according to discipline and other factors. For instance, when E. M. Berman (2006) defined performance, he emphasized "the effective use of resources to achieve results". G. Bouckaert and J. Halligan (2008) followed E. M. Berman (2006) for thinking, saying that "performance is the tangible use of results" (Bouckaert G., Halligan J., 2008). In spite of the discrepancies in definitions, there is some common ground, and in general, performance definitions generally refer to management, operations and achievement of results. Thus, performance stems from the ways organizations use employees and other resources to reach organizational goals.

Definitions of achievement seem to refer to high performance rather than low performance. The focus is on achieving targeted and good results. For example, and especially in connection with this work, a teacher is employed to teach well. If he/she does not do well in relation to the training standard, a variety of factors will testify. Campell et al. (as mentioned in S. Sonnentag, M. Frese (2001)) emphasized that, "performance is when organizations hire someone to do, and do well.". However, to ensure good performance and increase productivity, as well as to achieve the desired quality of products and services, performance must be managed.

Performance management is defined as "a process of developing a shared understanding of what needs to be achieved and how to achieve it; an approach to managing people increases the likelihood of success" (Armstrong, M., Murlis H., 2004). With this definition, performance management becomes one of the most powerful management structures and tools to ensure that desired and expected results are achieved. As reported by C. Helm (2007), performance management can, "Measure the effectiveness of aligning individual performance goals with organizational goals and linking performance with remuneration" (O'Donnel M., Turner M., 2005).

Extensive research can be found in literature on organizational behaviour that highlights three key factors in determining employee performance. They are motivation, ability/capacity (including skills and knowledge) and organizational support (including knowledge of facts, rules, principles, and organizational procedures) (Lawler III EE, 1973; Wood J., Zeffane R., Fromholtz M., Fitzgerald J. A., 2006). It has been expressed in the equation as follows:

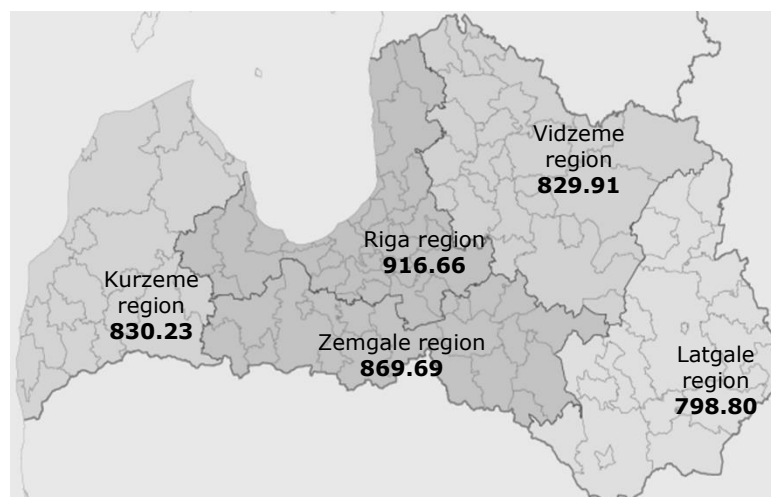
$$\text{Performance} = \text{motivation} \times \text{ability} \times \text{organization support}$$

This equation shows that performance is the product of multiplication by following factors: motivation, ability and organizational support. In the previous formula it was stated that performance consists of motivation and ability (Lawler III E. E., 1973), but recent scholars have added organizational support to the earlier formula (Wood J., Zeffane R., Fromholtz M., Fitzgerald J. A., 2006).

3. Motivation and the link between remuneration and performance

Motivation has been a major issue for researchers working on organizational and employee performance for many years. It is considered to be a key determinant of performance, and there is a strong link between remuneration and performance - remuneration is seen as a factor that motivates employees to perform. Motivation theories can be grouped into two types: content and process (Wood J., Zeffane R., Fromholtz M., Fitzgerald J. A., 2006). Content motivation theories refer to special needs or motives that motivate people to do their jobs. Content motivation theories are needs-based theories and include a hierarchy of needs theory (by A. Maslow) and two-factor theory (by F. Herzberg). Both theories speak of the nature (content) of employees' needs, but they do not address the reasons why employees choose to do something different to meet their needs. An organization manager cannot influence the content of an employee's needs (intrinsic motives), but can influence the way in which an employee responds to the needs. Meanwhile, motivation theory at the heart of the process is the reasons why employees choose certain actions to meet their needs, as well as the emphasis on measuring people's satisfaction based on meeting goals (Wood J., Zeffane R., Fromholtz M., Fitzgerald J.A., 2006). Process motivation theories include expectancy theory, reinforcement theory and equity theory.

Given the current model of teacher funding "Money follows the student" the authors believe that the equity theory plays an important role in the relationship between remuneration and performance. The equity theory proposes: people make subjective judgments about the relationship between effort (or input) and remuneration (or outcome). They then compare this relationship with the performance of other employees (Wagner III J.A., Hollenbeck J.R., 2010). Feelings of injustice can become motivators or de-motivators for workers. As long as employees do not feel they receive a fair remuneration, they will be interested in reducing their efforts, including: productivity, use of skills, and use of knowledge (Wood J., Zeffane R., Fromholtz M., Fitzgerald J.A., 2006). The regulations of the Cabinet of Ministers set the minimum monthly wage per rate for teachers at EUR 750, but in educational establishments in Latvia they are very different - the primary factor is the number of students in the educational institution, because each student follows the amount of money. Due to this aspect, inequality is created in the salaries of teachers in the regions of Latvia for one rate, which is shown in Figure 2.



Source: authors' calculations based on VIIS data

Fig. 2. The average salary of teachers per one pedagogical rate in general education institutions in the planning regions of Latvia in 2019/20, EUR

There are five regions in Latvia and the average teacher pay gap in the regions is up to 15 percent. The highest rates are in the schools of Riga region (916.66 EUR) because of the large number of students and the large classes in the educational institutions. The lowest rates are in the schools of Latgale region (798.80 EUR), which means that there are many educational institutions with a small number of students in Latgale region. Such educational institutions cannot pay teachers for correction of students' home-works/papers, preparation for lessons, or individual work with students, since the number of students is so small that funding is limited to implementing the curriculum. Inequality in salaries is also reflected in Table 1 - tariffication for two Latvian language teachers who work in two different schools of the same county that are located only in 11 km distance from each other.

Table 1

Salaries of two Latvian language teachers in different local schools representing the same county 2019/20

Tariffication	Smiltene secondary school	Bilka primary school
Contact hours (lessons)	21	21
Correction of student's works/papers	4	1
Preparation for lessons	4	0
Consultations	4	0
Total workload:	33	22
Salary per rate, EUR:	942.87	796.40
Total salary, EUR:	1037.16	584.03
Difference, EUR:	453.13	

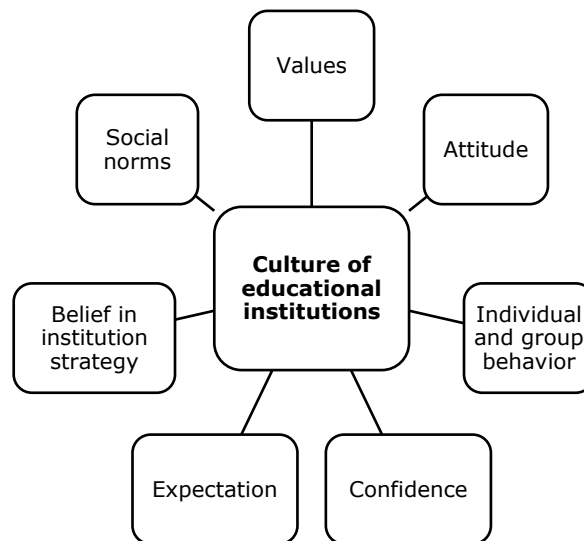
Source: authors' calculations based on VIIS data

Both teachers teach 21 contact hours per week, but due to insufficient funding, the extra work is paid in different amounts. For one teacher, 4 hours are calculated for the correction of student work, the other – 1 hour. For one teacher, 4 hours are calculated for preparation for lessons, the other is not paid at all. For one teacher, 4 hours are listed for the consultation, the other is not paid at all. Total hours and pay per rate are variable and the pay gap is 453.13 EUR, despite the fact that the number of contact hours per week does not differ.

4. Organizational culture and politics

One of the factors influencing individual performance is the culture and politics of the organization, and these factors have a significant impact on employee performance. Thus, school culture is one of

the factors that determine the level of achievement of teachers, motivation of activities, cognitive activity, emotional mood, trust in a particular educational institution. Figure 3 illustrates the structural model of the culture of educational institutions, where the culture of the organization is the teacher.



Source: authors' illustration

Fig. 3. Cultural elements of educational institutions

In April 2015, one of the leading organizations cultural researchers, D. R. Denison and colleagues published the results of a six-year study to determine whether there is a causal relationship between organizational culture and performance. The results supported the assumption that desirable changes in organizational culture are a prerequisite for employee satisfaction and consequently job performance (Boyce A. S., Nieminen L. R., Gillespie M. A., Ryan A. M., Denison D. R., 2015).

The political environment is also considered to be a "key determinant of performance" in public and private organizations. The behaviour of political or organizational leaders refers to "activities that are not necessary as part of a formal role in the organization but that influence or attempt to influence the distribution of strengths and weaknesses within the organization". Although political behaviour is not a formal job requirement, it is nevertheless a way of life in all organizations and has a significant impact on organizational performance (Robbins S. P., Judge T. A., Millett B., Jones M. 2010). The political environment is also observed in Latvian educational institutions. Based on the research conducted by I. Prizevoite, 16 % (n = 854) of teachers of general education institutions in the regions of Latvia believe that the tariffication process is not carried out objectively (Prizevoite I., 2013).

Conclusions and recommendations

- 1) The study of theoretical sources has shown that remuneration and salaries have different meanings. Salaries are financial remuneration paid to an employee in monetary terms, while remuneration have a broader meaning. Remuneration consists of both financial remuneration and the moral incentives of the employer (appreciation, praise, trust) - non-financial remuneration.
- 2) The findings of the authors' study show that remuneration is closely linked to performance and that this relationship is formed through motivation, which can be explored using four types of theory: need-based theories, reinforcement theory, expectancy theory and equity theory. Remuneration is considered an element of motivation that generates specific behaviours related to performance. The theory also recognizes the potential impact of an organization's cultural and political environment, as well as the fact that the level of skills and knowledge influences the

performance level. However, according to this study, it is assumed that the level of skills and knowledge of teachers is neutral. In this paper, the explanatory power of the theoretical framework was used to test the relationship between remuneration and performance in relation to teachers in general education in Latvia.

- 3) The current payroll financing model for teachers in Latvia creates a situation where teachers with the same workload have different wage per one pedagogical rate – the average teacher pay gap in the regions is up to 15 percent and different hours for extra work, which is a particular problem in rural schools. As a result, teachers' performance in different regions of Latvia may vary. This highlights the need for the Ministry of Education and Science to review funding arrangements for low-achieving educational institutions and to conduct research to determine whether remuneration is a key driver of performance. In order to further explore this issue, the author's forthcoming research will focus on researching teacher wage rates at each Latvian general education institution and identifying teachers' views on the impact of performance on remuneration to make proposals to the Ministry of Education and Science.

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