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**THE EFFECTS OF SUPPLEMENTARY
REWARD SYSTEMS ON THE RELATIONSHIP
BETWEEN EMPLOYER AND EMPLOYEE**

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INDEX

INTRODUZIONE.....	IV
INTRODUCTION.....	X
CHAPTER 1: NEW CHALLENGES FOR COMPANIES	1
1.1 The value of Human Capital	1
1.2 Strategic Human Resources Management	6
1.3 Employee attraction and retention.....	9
1.4 Employee motivation and performance	11
1.5 Employer branding.....	16
1.6 Labour cost and remuneration policy.....	17
1.7 The importance of flexibility and Work-Life balance	22
CHAPTER 2: COMPENSATION DECISIONS	27
2.1 Remuneration as motivator	27
2.2 Fixed pay and variable pay.....	29
2.3 Non-monetary compensation	33
2.4 Employee benefits.....	40

CHAPTER 3: SUPPLEMENTARY REWARD SYSTEMS IN EUROPE	55
3.1 The extent of supplementary reward systems	55
3.2 Barriers to introduction	63
3.3 Employee's perspective.....	65
3.4 Employer's perspective	69
3.5 National regulations	75
3.6 Changes and future perspectives	79
CHAPTER 4: CAFETERIA PLANS	85
4.1 How cafeteria plans work.....	85
4.2 Main issues of flexibility.....	93
4.3 How to develop an employee benefits plan	95
4.3.1 Introduction to employee benefits plan.....	95
4.3.2 Preliminary evaluation	98
4.3.3 Classification and analysis of company population.....	100
4.3.4 Planning of the employee benefits plan	103
4.3.5 Implementation of the employee benefits plan	111
4.3.6 Monitoring of the employee benefits plan	117
CONCLUSIONS	121
REFERENCES	131

LIST OF FIGURES AND TABLES.....137

INTRODUZIONE

Da sempre la remunerazione è l'elemento centrale del rapporto tra azienda e lavoratore. Il livello di retribuzione, in larga misura, influenza la soddisfazione lavorativa dei dipendenti, la qualità del lavoro e il loro tenore di vita; allo stesso tempo, rappresenta la parte più significativa del costo del lavoro per le imprese e, in generale, rappresenta una percentuale significativa del prezzo dei beni e servizi erogati dalla stessa.

La remunerazione comprende tutti i compensi monetari e non monetari che i dipendenti ricevono per la loro prestazione. La forma tipica di remunerazione è una retribuzione di base calcolata in modo standard in relazione alle ore lavorate. Tuttavia, il compenso è molto più di un semplice pagamento in forma di salari, stipendi e premi. Infatti, la maggior parte delle aziende ha iniziato ad offrire nuovi sistemi di retribuzioni, basati non solo sul compenso monetario, ma che includono anche ad esempio beni in natura o servizi.

Tra quest'ultime forme alternative di remunerazione trovano spazio i benefit che, seppur trattati sin dall'inizio degli anni 1990 da molti economisti, sembrano oggi ricoprire un ruolo molto importante. Vengono, infatti, considerati efficaci nell'allineare gli obiettivi dell'azienda con i bisogni avvertiti dal lavoratore, accrescendo in quest'ultimo il senso di appartenenza e coinvolgimento che lo spingono a migliorare la propria performance.

Tra le ragioni per cui le aziende propongono tali politiche di retribuzione, vi è l'esigenza di rispondere ad alcuni cambiamenti riguardanti il contesto lavorativo in generale e la composizione della forza lavoro, come spiegato all'interno della tesi.

Pertanto, oltre alle forme "tradizionali" di retribuzione, le imprese hanno introdotto ormai da qualche tempo quelli che sono noti come "sistemi integrativi di remunerazione dei dipendenti", intesi a premiare le prestazioni e motivare i dipendenti, di cui fanno parte i benefit sopra citati. Tali sistemi vanno differenziati dai cosiddetti "straordinari", cioè pagamenti aggiuntivi da parte del datore di lavoro che derivano da obblighi previsti dai contratti collettivi o dalle leggi e che sono rivolti ai dipendenti chiamati a svolgere il proprio lavoro in orari non usuali, in condizioni particolarmente difficili o per un maggior numero di ore.

Attraverso una revisione della letteratura economica e in seguito l'analisi di alcune ricerche empiriche sull'attuazione dei sistemi integrativi di remunerazione, questa tesi ha lo scopo di analizzare detti sistemi e i rispettivi effetti che gli stessi hanno sui dipendenti, in termini di motivazione, produttività e soddisfazione. La remunerazione, come accennato precedentemente, rappresenta inoltre un costo rilevante per i datori di lavoro, quindi è importante che questi siano in grado di prevedere le migliori politiche al fine di raggiungere sia gli obiettivi dell'azienda che, al tempo stesso, soddisfare le esigenze dei dipendenti.

Andando nello specifico della struttura della tesi, nel primo capitolo vengono presentate le principali sfide che un'azienda è chiamata ad affrontare, legate soprattutto alla gestione delle risorse umane. I cambiamenti avvenuti nell'ambiente di lavoro a causa della crescente importanza del capitale umano all'interno dell'azienda, l'eterogeneità nella composizione della forza lavoro e l'introduzione di tecnologie nei luoghi di lavoro, spingono le aziende a pensare e ad adottare nuove strategie e decisioni in termini di fidelizzazione, motivazione e produttività del capitale umano, ma anche immagine aziendale e flessibilità di nuovi modelli di lavoro.

Proseguendo con il secondo capitolo, vengono spiegati in dettaglio i diversi tipi di retribuzione che possono essere offerti ai dipendenti: dagli stipendi fissi ai benefit, analizzando anche i rispettivi effetti che essi hanno sia sui dipendenti che sui datori di lavoro, evidenziando inoltre i criteri di scelta e preferenze dei lavoratori. Dal punto di vista del datore di lavoro, queste decisioni risultano cruciali per affrontare e risolvere le sfide presentate nel capitolo precedente, incluso l'ammontare del costo del lavoro, considerato uno dei più rilevanti per le aziende. L'analisi della struttura del costo del lavoro è fondamentale e deve essere pensata in modo accurato e strategico. Tuttavia, a volte le aziende non sono totalmente libere nel prendere questa scelta, perché vincolate da contratti collettivi o regolamenti particolari.

Nel terzo capitolo, dopo una breve introduzione sui sistemi integrativi di retribuzione, verranno analizzate alcune ricerche empiriche recentemente condotte e che trattano dell'attuazione ed estensione di tali sistemi. In particolare, verranno presentati i risultati della ricerca empirica condotta da Eurofound nel 2016 che consente di comprendere in quali Stati membri dell'Unione Europea sono maggiormente utilizzati questi sistemi di retribuzione e i principali motivi che spingono le aziende ad utilizzarli. Inoltre, i risultati di tale ricerca, forniscono informazioni sul tipo di datori di lavoro e dipendenti che preferiscono questo tipo di remunerazione, sulla base dei vantaggi che possono ricevere, così come le loro esigenze personali.

Il quarto e ultimo capitolo si concentra maggiormente su un certo tipo di sistema integrativo di retribuzione noto come cafeteria plans o flexible benefit plans, che sembra una delle strategie maggiormente adottate, anche nel nostro paese, in quanto sono in grado di supportare le aziende nell'affrontare i cambiamenti e le nuove sfide riguardanti il capitale umano. Così come negli altri capitoli, una revisione della letteratura economica supporta l'analisi che è volta a studiare l'efficacia della flessibilità concessa ai dipendenti nella scelta dei benefit. Questo è un approccio particolare che si sta sviluppando proprio in questo periodo storico. Infatti, come verrà spiegato in seguito, molte aziende, anche italiane, ne stanno valutando l'attuazione mentre altre hanno già deciso di intraprendere questa strada. Tuttavia, è interessante sapere quali sono le reali conseguenze

dell'attuazione di questi piani da entrambe le prospettive: dei datori di lavoro e dei dipendenti. Al fine di attuare i giusti piani di benefit per i dipendenti è necessario un approccio ed un pianificazione strategica, che prevede alcune importanti fasi. Nell'ultima parte del quarto paragrafo, infatti, con il supporto sia della letteratura economica sia di alcuni centri di ricerca dedicati allo studio di questo tipo di pratiche all'interno delle aziende, verrà presentata la procedura prevista per la stesura dei piani di benefit per i dipendenti.

INTRODUCTION

Remuneration has always been the central element of the relationship between the firm and the employee. The level of pay, to a great extent, influences employees' job satisfaction, quality of work and standard of living; at the same time, it represents the most significant part of labour costs for employers and, in general, accounts for a significant proportion of the price of goods and services.

Remuneration comprises all the monetary compensations that employees receive for their work. The typical form of remuneration is a base pay for standard hours worked. However, compensation is more than just money paid in the form of wages, salaries, and bonuses. Actually, most of the companies have started to implement new reward systems, based not only on monetary pay but also on different kind of compensation, including benefits.

Employee benefits find their place among the several forms of remuneration and, although they had been dealt since 1990s by many economics, they are now playing a very important role. Employee benefits are actually considered effective to align the firm's objectives with the employees' needs, increasing his or her sense of belonging and engagement, leading to an increase of the performance.

Among the reasons why companies propose such remuneration policies, there is the need to respond to some changes regarding the general working environment and the composition of the workforce, as deeper explained in the thesis.

Therefore, in addition to the ‘traditional’ forms of pay, enterprises have for some time been introducing what are known as ‘supplementary employee reward systems’, aimed at rewarding performance and motivating employees, which includes the benefits above mentioned. These systems must be differentiated from the so-called "overtime", that is, additional payments provided by the employer that derive from obligations included in collective agreements or laws and which are aimed at employees called to work during unusual or additional hours or in particularly difficult conditions,

Through an economic literature review and then the analysis of some empirical researches about the implementation of supplementary reward systems, this thesis is aimed at analysing these systems and the relative effects on employees in terms of motivation, productivity and satisfaction. Remuneration or pay, as stated above, also represents a relevant cost for employers, so they should be able to design the best reward system in order to achieve company’s objective and, at the same time, meet employees’ needs.

Going deeper into the structure of this thesis, the first chapter presents the main challenges for companies that are mostly related to Human Resources Management. Hence, the changes occurred in working environment due to the increasing importance of Human Capital inside the firm, the heterogeneity in workforce composition and the introduction of technologies in workplaces, lead the companies to think and adopt new strategies and decisions in terms of human

capital retention, motivation and productivity, employer branding and the flexibility of new working models.

Moving on to the second chapter, it explains deeply the different kind of compensation that may be offered to employees, from fixed salaries to benefits, and the respective effect that each kind of remuneration has on both employees and employers, especially highlighting the criteria of employees' choice and preference. From the employer perspective, these decisions are crucial in order to face and solve the challenges presented in the previous chapter, including the amount of labour cost, considered one of the most relevant faced by the companies. The analysis of the labour cost's structure is fundamental and must be chosen accurately and consciously. However, sometimes firms are not totally free in taking this choice, cause they may be constrained by collective agreements or particular regulations.

In the third chapter, after a short introduction, some empirical researches recently conducted about the implementation and the extent of supplementary reward systems are analysed. Particularly the empirical research conducted by Eurofound in 2016¹ that allows to understand in which European Member States the different systems are most used and the main reasons why companies took this decision. Moreover, the results of the research provide information about which kind of

¹ Eurofound (2016), Changes in remuneration and reward systems, Publications Office of the European Union, Luxembourg.

² "Putting people first for organizational success" J. Pfeffer, J.F.Veiga – Academy of Management

employers and employees mostly prefer this kind of remuneration, according to both the advantages that they may receive from it and their personal needs.

The fourth and last chapter focuses more on a certain type of supplementary reward systems, which is also known as cafeteria plans or flexible plans, that seem to be one of the strategies able to support companies in facing the verified changes, also in our country. As well as in the other chapters, an economic literature review supports the analysis which is aimed at studying the effectiveness of providing flexibility to employees as regards to the choice of benefits in kind offered by employers. This is a particular approach whose time has at least come. Hence, as will be explained later, many companies, also the Italian ones, are considering to implement it while other have already started to do it. However it's interesting to know which are the consequences of the implementation of these plans from both employers' and employees' perspectives. In order to implement the right employee benefit plans, a strategic approach and planning is required, which includes some important steps. The last part of the fourth chapter, in fact, explains with the support both of the economic literature and of some research centers dedicated to the study of this type of practices within companies, the procedure for drawing up benefit plans for employees.

1. NEW CHALLENGES FOR COMPANIES

1.1 THE VALUE OF HUMAN CAPITAL

Barney (1991, 2001) argues that sustained competitive advantage accrues to firms that develop resources that are valuable, rare, and hard to imitate. According to Barney (1995), “[a] firm’s resources and capabilities include all of the financial, physical, human and organizational assets used by a firm to develop, manufacture, and deliver products or services to its customers”.

The revival of human resource management and thus the rediscovery of the value of people in organizations have recently shaped both scholarly and professional literature and represent a further push to a rethinking of some old categories, such as working hours, work arrangements, task management, skills assessment, and so on. The complexity of postmodern organizations, especially when engaged in global competition with its economic pressures and just-in-time production calls for a redefinition of the needs of people at work. (Manuti, De Palma, 2014).

Also, the same authors, state that employability, resiliency and talent management have rapidly become priorities for organizations interested in enhancing their intangible asset, the one that really makes the difference: human capital.

Human capital, talent management, human resource planning are only some of the labels recurring in the literature and testifying to the positive correlation between

an enlightened human resource management strategy and organizational performance on the market (Hiltrop 1999; Lewis & Heckman 2006).

This is the main reason why human capital is extremely important inside a company.

During a master course in Human Resources Management, I had the possibility to attend a lesson about the importance of the “human capital”, that is quite different from “human resource”. Indeed, considering the "Human Factor" in the company means wanting to pose the emphasis on the psychological aspect of human resources, understood as “Capital Value”.

In fact, the man within a work context cannot be considered only from the professional point of view, or as an element capable of expressing his own “vertical skills”, but must also be considered as a “person”, that means endowed with his own thought, his own emotionality and psychological characteristics. Barney (1995) notes that companies, through their people, gain skills and abilities over time and develop a culture, social networks, and an organizational/management structure that manages those skills and abilities and is hard for competitors to duplicate.

Human resources represent a crucial factor of success, because through their know-how, they play a central role with respect to the business objectives' achievement. The result is an increasing attention to the systems of evaluation of

human resources, not only from the perspective of ex post verification of the work of employees, but also from a perspective of ex ante planning.

This is the main reason why, the companies' orientation has passed from the success in terms of business, to the success in terms of sustainability, that includes caring people who work inside the company. The correlation between this consciousness and the width of the welfare offers, is strongly evident.

The involvement of human resources is playing an increasingly important central role as a strategic lever for organizational development. Over the years, companies have become more people oriented and, as a very interesting empirical research of Jeffrey Pfeffer and John F. Veiga² tells us that “the culture and capabilities of an organization – derived from the way it manages its people – are the real and enduring sources of competitive advantage. Managers today must begin to take seriously the often heard, yet frequently ignored, adage that people are our most important asset”.

Other interesting observations have been found out by Oberoi (2010) that in a study on rewards and benefits has found that it is not just how much reward our staff that matters. Rather, they want be able to measure the results of this investment, by seeing how much they can actually enjoy what they receive. Variable pay, benefits, differentiated rewards and performance matrices these are

² “Putting people first for organizational success” J. Pfeffer, J.F.Veiga – Academy of Management Executive, 1999

all key aspects play the important role in ROI measurement and essential part of an organization's reward architecture in benefits. Organizations have the mindset that their high performance will only stay with them if their salary was externally competitive not only on aspects, but also in terms of benefits and total remuneration.

An article published in Forbes, states that “the leaders of people-centric companies understand that it's people who make their company successful. These companies realize that when people feel valued and cared for, they do their work with stronger intrinsic motivation, a deeper sense of meaning, and a greater level of engagement. They go the extra mile simply because they want to contribute to an organization that cares about them”. To record positive results, it's essential to take action. “It's about creating leadership expectations for humility and compassion. It's about developing employee programs that support growth and well-being – both in the workplace and at home. This is a challenge, but it's not as complex as it seems” encourage the same article.

A report edited by UBI Banca and ADAPT³ that started to make researches in the field of employee benefits provision, suggest us a larger vision of the changes to which working environment is subjected in this era, by dividing them in internal

³ ADAPT, “Welfare for people – Secondo rapporto sul welfare occupazionale e aziendale in Italia”, 2019

changes and external changes. Among the external changes, as well as it's possible to see from Eurostat data, we find:

- Increase average age of the population;
- Technological and productive transformations;
- Dynamic markets and growing labour market transitionality;
- Work transformations;

While, by analyzing internal changes, that include the changes that companies have verified inside themselves, there are:

- Increase in the average age of the workforce;
- Increase in the share of workers suffering from chronic diseases;
- Impact of socio-demographic factors on the productive capacity of the individual work and on an aggregate level, on the entire company;
- Difficulties in finding qualified workforce and growing need to implement corporate retention policies;
- Increasing need for adaptation of organizational models and tasks for sustainable work over long term;

The more intense competitive pressures drive employers to enlarge their view and redefine their objectives.

1.2 STRATEGIC HUMAN RESOURCES MANAGEMENT

HR departments should be encouraged to become more strategic by understanding the business strategy of the organization and restructuring both the HR organization and practices so they support that strategy (Manuti and De Palma, 2014).

According to Becker and Huselid, that treated the topic of strategic human resources in 2006, The field of HR strategy differs from traditional HR management research in two important ways: first, SHRM focuses on organizational performance rather than individual performance; second, it also emphasizes the role of HR management systems as solutions to business problems (including positive and negative complementarities) rather than individual HR management practices in isolation. Strategy, according to the authors, is about building sustainable competitive advantage that in turn creates above-average financial performance. The simplest depiction of the SHRM model is a relationship between a firm's HR architecture and firm performance.

Hence, Strategic Human Resources Management (SHRM) is the term through which we define the set of activities and decisions relating to human resources, planned in order to support the organization in achieving its objectives. The HR architecture is composed of the systems, practices, competencies, and employee

performance behaviours that reflect the development and management of the firm's strategic human capital.

It presents few differences from the traditional Human Resources Management function, indeed there are four key elements that characterize a Strategic Human Resources Management. These elements are the following:

1. The use of planning;
2. A coherent approach to the design and management of personnel systems based on an employment policy and workforce strategy, supported by the corporate culture;
3. The link between Human Resources Management activities and policies to declared strategies;
4. Considering the people of the organization as a "strategic resource" to gain competitive advantage, as human capital and not just operating costs.

Strategic Human Resources Management allows the organizations to align the Human Resources Department with the entire organization and considers it as important as all the other functions, because people play a more central role in the company. It requires a certain consistency between HR practices, but also a consistency of all HR practices with the organization's strategy.

The biggest concern for a company is the workers' productivity because it affects production, sales and consequently the profit. When we talk about productivity,

we consider several instruments and practices that employers can implement in order to make the workers more productive and productivity strongly depends by motivation. One variable that influences a lot the economic result of the company, as said at the beginning, is the personnel cost and it's important that employers control it, especially when trying to increase extrinsic motivation. The human and personal aspect is more and more relevant in a business context and for employers it's becoming essential knowing their employees' needs, ambitions, living conditions and perception of success⁴, that is the essential aspect to build a significant and true relationships.

According to a survey conducted by Welfare Index PMI report on Italian companies, there are two main reasons why companies choose to implement corporate welfare initiatives: employees' satisfaction improvement and corporate climate improvement; the increase of working productivity. Concerning the first aspect, the company is more worried about people caring, while the second one is more aimed to the achievement of business objectives. Actually, both reasons are aligned and useful each other, because a great business climate could be considered an instrument for the application of business objectives.

In the next paragraphs, the main activities and concerns of Human Resources Management are explained and, according to each of them, how is important implementing corporate welfare practices.

⁴ Prodromou (Harvard Business Review, 2014)

1.3 EMPLOYEE ATTRACTION AND RETENTION

Scott-Ladd et al (2010) described the attraction and retention of employees as an important part of a company's HR efforts claiming that it is connected to the success of a company. Likewise, more and more companies had started to realize this and they saw a need for them to check that their recruitment and retention practices within Human resource management were in par with their overall strategy formulation. In addition, Scott-lad et al (2010) warned against making assumptions about what employees wanted in terms of attraction and retention. Before rewards can be offered a thorough analysis must be carried out to assess the employees' situation and understand their real needs. Scott-lad et al (2010) cited the US as an example saying that the rewards that are more likely to be received favourably in the country include more pay and flexible hours. Money acts as a motivator of people Gonzalez (2009), so that people like the idea of being paid for every ounce of effort put in, so that money could represent the reason why workers prefer to remain in a company. However, another interesting relationships presented in this research, is the one between workers and their supervisors, that leads to the conclusion that in order to retain workers, supervisors need to be trained, cause workers that feel maltreated by unprofessional supervisors, are the ones that are more likely to leave. Promotions are other instruments that help employers in retaining people inside the company,

because are able to increase workers' ambitions, thus an increase in motivation, that would be more difficult in the case of an external worker comes into the workplace from another company. The workers also want to be recognized or appreciated for the work they did. They usually claim about how they are criticized by their supervisors when production levels are bad but then do not get any commendation when production is good again. Regarding this, there are so many studies focused on the importance of recognition of the workers⁵, as the main impact on the employee engagement in best-in-class companies. The motivations behind the diffusion of corporate welfare are different. According to the survey conducted by the IRES and the Polytechnic University of Marche, the most widespread, constantly growing over the years, is the exchange between wage moderation and greater supply of services.

“Employee retention is a process in which the employees are encouraged to remain with the organisation for the maximum period of time or until the completion of the project” (Giri, 2008) and it's essential to specify that replacing an employee is an expensive process, this is the reason why a company really concerns about employee retention. This is so because hiring an employee leads to a very complex and costly process that is affected by several factors like: advertising, recruiter's salary, training and other expenses. Most HR professionals

⁵ “Welfare aziendale e flexible benefits” - Andrea Colombo, Mauro Battocchi, Massimo Pagani, 2016

and economic researchers believe that employee retention will be a key business tool. (McCooley and McCooley, 2009).

Furthermore, employee retention poses as a business concern for many firms (Ryan, 2000). He states that employee retention is an issue which should be considered as a strategic problem and hence must be handled with a benefits professional in sight. He also theorized that one of the many reasons why employees decide to leave their current employment is due to unsatisfactory tangibles (pay and benefits). Related to this, employers are starting to understand that offering an attractive pay is not always enough for an employee but that benefits and job security are usually demanded, most especially medical benefits (Koch, 2006). Another interesting research (Brenner, 2010) warned that mature workers are likely to leave the workforce unless policies are instilled in order to keep them in; such policies include “targeted employee benefits programs”, and examples include favourable health and life insurance policies.

1.4 EMPLOYEE MOTIVATION AND PERFORMANCE

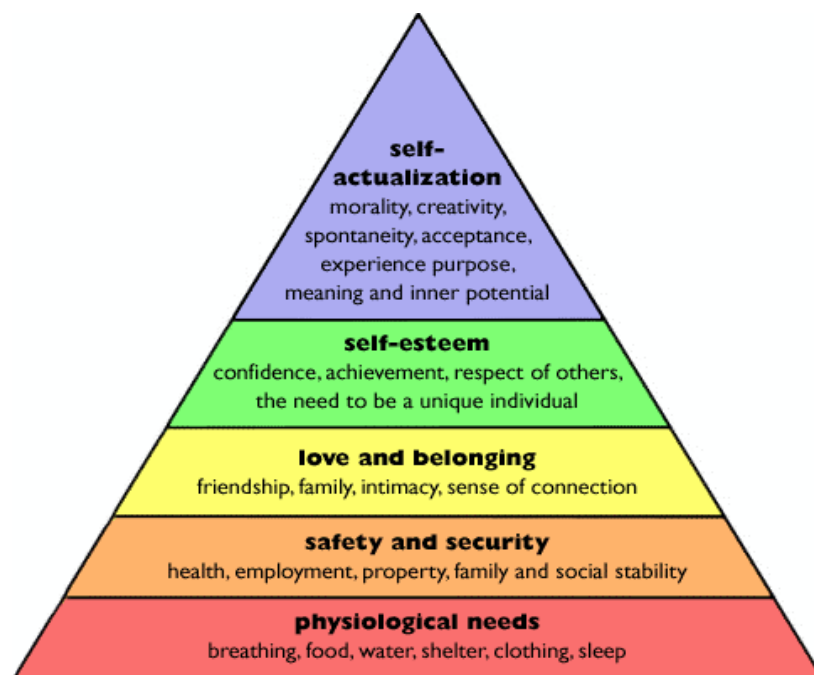
Once a worker is attracted and employer wants to retain him or her, motivation is the key to make the employee productive and satisfied. First of all, it's important to understand what motivation means and how the employers can motivate employees.

The motivational thinkers such as Maslow, Herzberg and Deci, despite differences in their approach, generally described two distinct motivational subsystems: intrinsic and extrinsic motivation. Intrinsic motivation can be conceived as internal thoughts or feelings that feed one's desire to achieve, perform or become involved in activities. Intrinsically motivated behaviours are those which are motivated by the underlying need for competence and self-esteem which may be performed in the absence of any apparent external stimulus. In contrast, extrinsic motivation is that which stems from the work environment external to the task, it is usually stimulated by external rewards (Silverman, 2004; Dubravka and Solankova 2015; Balcerzak and Pietrzak, 2016; Fapohunda, 2017; Andrejovska, Pulikova, 2018; Otter, Halasi, 2018). The ability to produce intrinsic and extrinsic incentives in order to motivate employees' performance to support the company's goals should be a modern business priority (Popovic et al., 2014; Stankiewicz, Moczulska, 2015; Lorincova et al., 2016).

According to Muhammad, Ikhlas and Khan (2012), one of the challenges of the workplace is getting employees to be motivated enough to carry out their work and maximize their performance. Employers have tried for a long time to find out what motivates people, debating a lot, but they can refer to Maslow's hierarchy of needs, that attempted to shed some light on the topic by providing five levels of employee needs, physiological, safety, social, ego, and self-actualizing. Below it's possible to see this needs' hierarchy to better understand which kind of needs an

employee wants to satisfy. They also follow a certain order, and it should be taken into account by an employer who wants to motivate employees and help us to satisfy them.

Figure I.1 - Maslow's hierarchy of needs



Source: American Society for Public Administration

Anyim et al (2012) points out that the manager's main priority should be increasing motivation, to enjoy the positive results especially on performances; a point also mentioned by Nicu (2012) who believes that motivation is one of the principal aspect of human resources processes, taking an essential role because it can turn out to be very useful to the whole organization. Surely, as Scott-Ladd et

al (2010) and Nicu (2012) stressed, knowing the motives of the employees would assist employers in improving action efficiency. It's also important to highlight the interdependence between motivation and performance according to which motivation and satisfaction levels of employees would always affect the individual and organizational performance Nicu (2012). This kind of interdependence that has been developed in 2011, adding that it is also affected by the complexity of the tasks and individual has to perform. Indeed, in the case of simple tasks, like repetitive tasks, motivation intensity increases and employee's performance also increase. With regards to complex tasks, that require for example creativity, motivation increase with performance just until a certain mark where performance cannot be increased more.

According to Rani and Kumar (2012) there are many other variables that work environment involves, including evaluation expectation, actual performance feedback, reward, autonomy and the nature of work itself, thus it's difficult to find the truth in terms of motivation and how to boost it.

Given these explanation about employee motivation, it's interesting to see how firms can use corporate welfare in order to motivate employees. (Grigoroudis and Siskos, 2010) poised that employees are the internal customers of an organization and stresses that their satisfaction is an important driver to business success. This notion is also supported by (Nawab, Bhatti and Shafi, 2011) who suggest that an

important factor for any organization that wishes to achieve its goals and objectives is to make sure that its employees are motivated.

It has always been thought that the rewards was actually what motivated employees, because the level of reward is directly proportional to the quality and quantity of work produced. In reality, according to Green (Green, 1992) employees are motivated to perform better when something that meets their satisfaction is offered. Therefore, once again, the real focus is the employee and his or her needs that, as we saw before, are changing along the years. As a result, employers motivate their employees in a number of ways one of which involves offering them incentives in order to bolster their satisfaction levels hence increasing their interests in their tasks and duties (Nawab, Bhatti and Shafi, 2011). In light of these considerations, Hong (1995) sought out to assess the impact employee benefits had on employee motivation and performance by carrying out a study on the topic. His sample included 113 corporations. At the end of his research, he was able to come to the conclusion that employee benefits have a great impact on work motivation which in turn affects performance. He also discovered that people reacted to employee benefits depending on factors such as job grade, gender and marital status etc. As we see in the next chapters, this is the reason why “flexibility” is considered another aspect that firms should take into account when deciding to offer corporate welfare initiatives to employees, because in order to destroy the separation of working life and private life it’s

important that an individual is recognized not only for his or her role of employees, but also his or her role in society and every-day life.

1.5 EMPLOYER BRANDING

The first principle of communication teaches us that it's not possible not communicating and companies have to take it into account. In this case we could say that what is inside appears outside and it is subjected to externals' evaluation. Among these externals we find also individuals that could be interested in the company for many reasons and that the company itself could be interested to meet. Remember that, among the most important activities carried on by strategic human resources management, there are the ones related to hiring the right people (Lazear, 1998) and companies may not know if the person interested in it could be the right one.

Moreover, in order to give a good image of it, in a period of crisis of the modern social state due to costs, diseconomies, mixing with different cultures, it is imperative for the company to ask itself about its role in society. The company that decides to commit itself, launches some signals to the society, to the competitors, to the consumers / customers / suppliers and to the political world, also in the small provincial context in which it operates. If it takes visible or hidden collective actions such as funding a scholarship, or some health research

for example, it becomes able to communicate its brand and together with it, its caring vision with respects to employees by solving some crucial situations or problems, by playing a role that is similar to the role played by trade unions to protect workers, by representing a secure place for the people that work inside it. According to Colombo, Battocchi and Pagani (2016), nowadays, especially qualified young people pay attention to the choice of the employer. We could say that they are selected but are themselves selectors. Therefore the value of the attraction and retention also passes through the care of the person. Furthermore, the corporate image requires care also in the marketing field of the company, thus the so called employer branding.

In the previous paragraphs is explained that employees' engagement is something the company must care and improve more and more, in order to have more productivity, more citizenship and attraction for new talents. How external stakeholders perceive the employer is also important, so that caring employer branding helps the employer to improve business relationships and the image of the company itself.

1.6 LABOUR COST AND REMUNERATION POLICY

Among the main objectives of a company there is the containment of costs, and concerning this, companies are really aware about the relevance of personnel cost.

As companies are becoming more concerned with being competitive, they are even more interested in saving on costs.

Regarding this, according to a definition provided by Eurostat, it's possible to state that labour plays a major role in the functioning of an economy. From the point of view of businesses, it represents a cost that includes not only the wages and salaries paid to employees but also non-wage costs, mainly social contributions payable by the employer. Thus, it is a key determinant of business competitiveness, although this is also influenced by the cost of capital (for example interests on loans and dividends on equity) and non-price elements such as entrepreneurship, skills and labour productivity, innovation and brand/product positioning within markets.

By looking at the structure of labour cost, better explained later, Human Resources Management departments play a very important role in this sense. Hence, it must show the value they add to the organization through alignment with business objectives, especially when making decisions that are costly for the firm.

According to Eurostat⁶ the labour cost or total labour cost is the total expenditure borne by employers for employing staff. It mainly consists of:

⁶https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Labour_cost

- Employee compensation (including wages, salaries in cash and in kind, employers' social security contributions);
- Vocational training costs;
- Other expenditure such as recruitment costs, spending on working clothes and employment taxes regarded as labour costs;
- Minus and subsidies received

One of the most discussed issue now is the central role of the worker as person, not only a factor of production that can be exploited, thought. It is considered the only way to retain a worker as a productive and efficient instrument for the company, that now is asked to implement several strategies in order to improve the engagement of its employees. The theory of human capital helps us to understand this concept (Lazear, 1998).

Actually, it's possible to engage workers in some other ways, not only by increasing the monetary rewards. For example, Goleman⁷ talks about the importance of leaders' ability of connection, so those leaders who are able to totally involve workers in new challenges and who are able to maintain long-term relationships.

The companies' biggest concern now is to be the most efficient and competitive as possible by reducing the costs. One of the most relevant cost is the personnel

⁷ "Primal leadership, unleashing the power of emotional intelligence", 2013 – Daniel Goleman

cost, so employees are asked to work with less and less means of production in order to saving resources and invest them in more strategic point in the process. Indeed, when we mention personnel cost, so that expenses that involve the people part of any business, we consider expenses like: health-care benefits, training costs, hiring process costs and many more. It's true that if a company is focused on hiring the best people, a hiring package without these items will not most certainly not get the best people. Containment of costs, therefore, is a balancing act. According to a web article on "The Role of Human Resources"⁸, there are three ways to cut personnel costs. One possible strategy, as we will see in the next chapter more deeply, is to implement a cafeteria plan, that started becoming popular in the 1980s and have become standard in many organization. Another way to contain costs is by offering training. While this may seem counterintuitive, as training does cost money up front, it can actually save money in the long run. The hiring process and the cost of turnover in an organization can be very expensive. Turnover refers to the number of employees who leave a company in a particular period of time. By creating a recruiting and selection process with cost containment in mind, HR can contribute directly to cost-containment strategies company wide.

⁸ "The Role of Human Resources" - https://saylordotorg.github.io/text_human-resource-management/s05-the-role-of-human-resources.html

Thanks to the implementation of corporate welfare practices, the company is able to reduce the burden of taxation that, together with the staff cost, represents another significant cost that can obstacle the achievement of high profits. Therefore, not only sustainable reasons lead to the implementation of corporate welfare plan, but also economic ones, in the next chapter all the advantages and disadvantages about this will be better analysed, also through some examples and support from several surveys. As we will see later, also employees receive some economic advantages, by receiving an higher amount due to the avoid of taxation. To summarize, the other kind of reasons why a company is interested to implement corporate welfare plans, among the ones explained above in this chapter, is labour cost control. However, it seems that the working productivity factor is something that employer would reach when a little bit of experience in the field of corporate welfare is gained, because the very first objective is the one linked to people caring. It means that a company starts to offer corporate welfare initiatives in order to improve people caring first, and then when some positive results are verified, the employer is aware also in working productivity improvement and starts to use corporate welfare strategically, through the consciousness increase.

1.7 THE IMPORTANCE OF FLEXIBILITY AND WORK-LIFE BALANCE

According to Aggarwal and Sharon (2017), the digital age in which we are living lead to various changes with respect to economical, cultural and societal arenas that the world altogether has undergone. The fact that new generation, called Millennials or Net Generation, has technology at their fingertips, results in the workplace behaviour and how they are taken care of in the organization.

As we saw in the first chapter, companies have changed their focus, by giving to the human capital a great importance. The management of human resources changes with change in technology.

Consequently, companies are now asked to deal with new models of work organization and many studies of the change management phenomenon, also affected by digitalization, provide us some significant concepts. Usage of technology is prevalent in planning and implementation of various activities of HRM. HRM should change in relation to the environment and this affects the way it operates. The plans, policies, rules and regulations change. (Aggarwal and Sharon, 2017).

Several publications and studies conducted by the Polytechnic University of Milan observatory “HR Innovation Practice” provides us an accurate explanation

of the new models of working organization⁹. By scrolling fast the evolution of these models, we can talk about the very first model, a traditional working, characterized by people and task control, without giving any kind of autonomy to workers, neither in the choice of working methods to follow. The current situation is summarized in the second model, called “productive working” where a little change, with the respect to the first one, is verified. According to this model, the main objective of the company is increasing and supporting the workers’ productivity with introduction of more flexible hours and more sharing spaces. The objectives are assigned by managers, while delegation and engagement are not so used. Actually, if we analyze the business environment now, we can notice the following: flexible time schedules and work spaces characterized by open spaces and meeting rooms are introduced; the responsibility of people is still scarce; task still be assigned and there is little chance of contributing to activities other than those purely operational.

Companies’ working models now, especially in our country, are evolving from a productive working to a collaborative working. A collaborative working consists in: increasing the capacity of people to collaborate and share knowledge by promoting moments of socialization and mutual knowledge; a new distribution of physical spaces - relationship points - and logical spaces - digital tools for social networking and collaboration. This is a model aimed at encouraging knowledge

⁹ https://blog.osservatori.net/it_it/organizzazione-lavoro-digital

sharing and the creation of relationships among people. There is also a greater freedom in managing working hours. This transaction is happening through a set of actions made by the companies, like: redesign of the physical spaces - in collaboration with the Facility Manager - and logical spaces – in collaboration with the CIO and CISO¹⁰. Also here it's possible to find the need of the company to improve work-life balance to increase the motivation and engagement of the resources, as well as attract talents with integrative tools with respect to money.

Putting people first inside a company means being able to recognize their needs and now the balance between work and private life is becoming even more difficult, so people ask for more flexibility, with which sometimes companies are required to deal with (Naithani, 2010). This is the next step in the evolution of these models, because after a collaborative working, the great challenges that companies should be able to face, is a “life balanced working” that these years represents a very discussed theme in business environment. According to Dhas (2015) work-life balance is about creating and maintaining supportive and healthy work environments, which will enable employees to have balance between work and personal responsibilities and thus strengthen employee loyalty and productivity. Hence, if life balanced work is to care the workers' wellness, not only in working terms, but also by improving working conditions, companies are

¹⁰ Chief Information Officer, who has the IT knowledge and support the firm with technologic solutions and Chief Information Security Officer, who cares the security of critical data of the enterprises.

aware about reconciling work and private needs through welfare services and flexibility in choosing both the times and the places in which to perform the own work according to well-defined policies . This definition contains one of the advantages and added value that flexible benefits offer, as we will see in the next chapters, that is to allow workers to choose the services they prefer on the basis of their real needs, that could be different for each one. The very last step, that according to Polytechnic University of Milan observatory is seems to be a little be slow in coming, is what is known Smart Working, that is a summary of business objectives and needs for the self-realization of people. This is a new working model focused on removing unnecessary constraints related to the workplace schedules and tools used, where possible. It also concerns about the worker's empowerment, with a less control of physical spaces and it enjoys the support of digital technologies.

To summarize, in order to positively answer to this request of flexibility, companies also need to reevaluate the way in which workers are remunerated. Even if in the next chapter, the topic of compensation will be deeper addressed, Costa e Gianecchini (2012), talk about the remuneration as an amount composed by a monetary part and a non-monetary part. This last part, as Milgrom and Roberts stated in 1992, affects directly the workers' wellness in both social and economic terms, increasing their purchasing power. Non-monetary part can coincide with benefit of different nature, depending on the moment in which they can enjoy

them (pension system or car possible to use also privately). These last forms of compensation, in particular, today constitute the basic component of company welfare initiatives. This step is becoming even more important because of the demand for flexibility that is now increasing as well as the changes the relationship between work time and life time. Furthermore, a wider employment of the female workforce and the progressive aging of the population make them feel more need for care and family assistance or other needs felt by younger employees (Phule and Katait, 2018).

2. COMPENSATION DECISIONS

2.1 REMUNERATION AS MOTIVATOR

Employee remuneration supports the achievement of strategic and short-term company objectives by helping to ensure a skilled and motivated workforce that is needed for each enterprise. The effective system of remuneration increases employee loyalty and performance quality and in consequence, enhances company competitiveness (Mura, Gontkovicova and Spisakova, 2019).

According to Sherman and Bohlander (1992) pay constitutes a quantitative measure of an employee's relative worth. For most employees, pay has a direct bearing not only on their standard of living, but also on the status and recognition they may be able to achieve both on and off the job.

The effective reward strategy defines longer-term intentions in such areas as pay structures, contingent pay, employee benefits and steps to increase engagement (Armstrong, 2007).

According to Lazear (1998), incentives are not considered only a fashionable topic, but they are the heart of a firm's ability to compete effectively in a world market. There are many ways to provide incentives to workers.

The choice among the several possible schemes, and between pecuniary and nonpecuniary motivators, has important implications for the ways in which workers behave.

Sherman and Bohlander (1992) state that, when setting the compensation structure, company must take into account three crucial points in order to make the compensation most motivating as possible. The first one concerns pay equity, where equity can be defined as anything of value earned through the investment of something of value. Wallace and Fay report that “fairness is achieved when the return on equity is equivalent to the investment made”. This means that for employees, pay equity is achieved when the compensation received is equal to the value of the work performed. Not only must pay be equitable, but it must also be perceived as such by employees.

The second aspect important to consider is the pay expectancy, which plays a fundamental role. According to Sherman and Bohlander, the expectancy theory of motivation predicts that one’s level of motivation depends on the attractiveness of the reward sought. Therefore, the theory holds that employees should exert greater work effort if they have reason to expect that it will result in a reward that is valued. To motivate this effort, the attractiveness of any valued monetary reward should be high. Employees also must believe that good performance is valued by their employer and will result in their receiving the expected reward.

The impact of secrecy must be the third consideration through which a company defines the compensation structure. Hence, according to Lawler, there is a reason to believe that secrecy can generate distrust in the compensation system, reduce employee motivation and inhibit organizational effectiveness. Yet pay secrecy

seems to be an accepted practice in many organizations in both the private and the public sector.

2.2 FIXED PAY AND VARIABLE PAY

The results of several studies indicate that financial reward is the main motivator of employees. It is ranked at the top of employee preferences because it enables to fulfil their basic needs of life and also money is considered as the sign of triumph and accomplishment. Financial reward enables the human to establish status, rank and authority (Yousaf et al., 2014; Duma, 2016; Mihokova et al., 2016).

Outside competition is not the only reason to pay workers on the basis of their output. Incentives, risk and quality production also enter into the picture (Lazear, 1998).

With this statement the author highlights the importance of defining the right compensation practices, that if used properly, may turn out to be a strategic tool able to motivate employees.

The first important difference to do is between output-based pay and input-based pay. Input-based pay is compensation that depends on the amount of time or effort spent on an activity. It is independent of output considerations, thus it concerns a more fixed amount. Input is not easy to measure, but firms use proxies in order to assess effort.

Paying on the basis of output has advantages. The two main advantages, according to Lazear, are the following.

Firstly, output-based induces the good workers to stay and the bad workers to leave the firm; output-based pay motivates workers to put forth effort instead of merely showing up to work.

Hence, offering an output-based pay, allow the firm to retain the most efficient workers, while the inefficient ones will leave it whenever their payments fall short of the wage at their next best alternative job. This is the one reason in favour of paying piece rates: it induces the more-profitable, higher-productivity workers to come to work for your firm and leaves the less-productive, lower-productivity workers to be employed by your salary-paying rivals.

The second reason for using output-based pay relates to incentives. Paying on this basis provides workers direct incentives to produce more.

Even if these two schemes offer different working conditions and have different effects on workers, they may be put together by using hybrid schemes. Workers who are paid on the basis of input may in fact have their compensation adjusted to some measure of output. The fact that this kind of compensation is given for the future, allows the firm to retain the worker who must stay with the firm for another year in order to capture the return to good performance. Conversely, a worker may be able to avoid being punished for poor performance by quitting the job and taking employment elsewhere. When analysing the output-based pay,

another important aspect needs to be considered, what economists call “ratchet effect” (Weitzman, 1980) according to which a firm might reduce a worker’s piece rate if it finds that worker was able to produce a very high level of output in a short period of time. In this way, the firm tries to “ratchet up” the amount of work done by the worker for a given amount of pay. The ratchet effect depends on the kind of relationship between employer and employee, that should be such a special relationship, mainly based on honest and confidence. One additional way to offset the ratchet effect is by using a carefully constructed compensation scheme that requires piece rates to fall over time in a particular way (Lazear, 1998). The factors that most characterized the evaluation of output-based pay are basically: the cost of output measure, the quality of the output. While, an input-based pay is more based on time spent working and quantity of effort, independently from the output considerations.

More specifically, variable pay concepts build on the central idea of agency theory, which suggests that incentives reduce the agency cost¹¹ to companies of monitoring and encouraging worker output and effort (Prendergast, 1999).

Companies that choose to implement a variable pay system are faced with a variety of options regarding the type of system to use, how broadly to assess performance, which tasks to measure and so on. These options are inexorably tied

¹¹ The agency costs is the internal costs incurred from asymmetric information or conflicts of interest between principals and agents in an organization.
Source: <https://strategiccco.com/agency-costs/>

to both the goals for certain workers or groups and the tools available for performance measurement. The combination of measurement constraints and varied goals leads companies to adopt variable pay systems that fit best with their individual situations. This often entails enacting multiple incentive schemes within a single firm.

As said before, a key issue in any discussion of variable pay systems is the difficulty of measuring performance. Even when performance can be measured, the indicators chosen by a company may not always be true indications of the actual value added by workers (Gibbons, 1998). The limitations of measurement have led to arguments in favour of weak incentives as the only way to preserve the right allocation of worker effort (Roberts, 2010). Other researchers claim that a certain minimum threshold for incentives must be met in order to induce more effort (Kauhanen and Piekkola, 2006).

Recent literature has explored the interaction between variable pay systems and the extent to which different schemes can be combined to produce better results. The most recent research suggests that combining individual performance measures with wider group- or company-based schemes can lead to increasingly positive effects. Pendleton and Robinson (2015), for example, suggest that one way that businesses are combating the possibly perverse incentives created by individual-level PRP schemes is to combine them with group incentives, most notably profit-sharing schemes. The argument is that, when a company wants to

use an individual payment-by-results scheme but measurement of the value added by individuals is difficult, adding a profit-sharing element can improve organisational commitment and orient employees more accurately with company goals. A study by Barnes and colleagues (2011) showed that when group and individual incentives were used in combination, employees still tended to focus on their own individual tasks more than teamwork and that team members tended to work faster at the expense of accuracy and quality. The authors advocate using mixed schemes just as any other form of incentive pay would be used, that is, based on the characteristics and goals of the specific situation.

The next paragraphs will better explain other kinds of compensation, different from the merely monetary one, that should be combined each other in order to be useful to motivate employees, achieving the best results.

2.3 NON-MONETARY COMPENSATION

As stated by Lazear in 1998, money isn't everything. That's because workers appreciate also such a nonmonetary compensation when their performance is offered, like benefits. It may be costly for a firm to provide working conditions that are valued by its employees. If it is costly, then there is a trade-off. In order to succeed in a competitive environment, a firm must strike the right balance

between wages and benefits. It must decide on the amount and type of benefits offered.

Baron and Kreps (1999) ask themselves whether it's better just give the money spent on the benefits to the employee and let the employee choose how to spend it, or not. The answer they give is that it's better to provide directly the employees with defined benefits and it is supported by two main reasons. The first one concerns the fact that the firm may be able to purchase benefits or perks at lower prices or higher quality than individual workers can. The second one is about the fact that giving compensation to employees in the form of certain types of benefits or perks can change the employees' behaviour and quality of work, to the advantage of the firm.

Non-financial rewards can have an even more significant impact on employee satisfaction and motivation than traditional financial rewards. All of these kinds of benefits communicate to employees that their work is valued and promote a positive work-life balance. Some of them, such as flexible working hours declare the willingness of an enterprise to provide an attractive working environment (Mura, Gontkovicova and Spisakova, 2019).

Money is a useful measure because it is fungible. Money, thus, is easily traded for goods. Since all workers trade some of their time for money, it must be true that when a worker chooses to work 40 hours rather than 39, the value of the leisure forgone during the fortieth hour of work is worth no more than the wage rate.

Otherwise, the worker would give up the wages for the fortieth hour and enjoy the leisure. Thus, we know that the worker values the last hour of leisure at wage rate. It's useful for the firm know that workers would be willing to accept a certain reduction of their wage to obtain certain benefits.

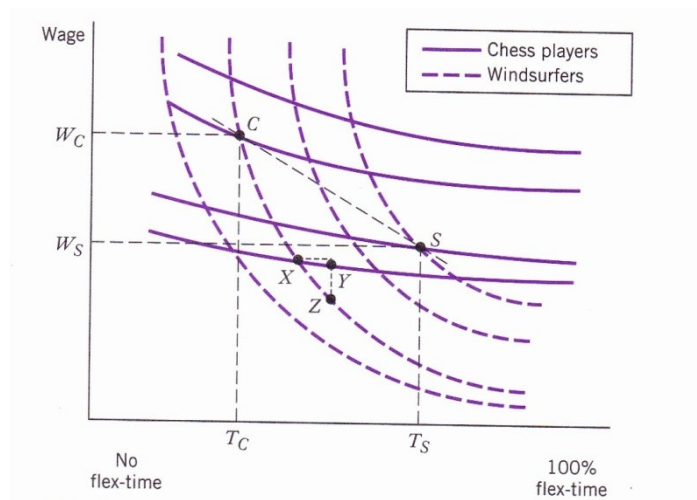
The monetary equivalent is what the firm is really worried about. It is, thus, a useful information for two main reason: it has a well-defined meaning and the firm can use this information to decide whether or not to make the concession. Hence, knowing the monetary equivalent is useful because revenues and other costs are measured in monetary units as well (Lazear, 1998). In this case, instead of thinking of money as the reward, simply think of the rewards as being comprised of many different elements, only some of which are money, but all having a value expressible in monetary equivalents.

When estimating the monetary value of a reward's element, it's important to assume the heterogeneity of preferences. It means that people differ in preferences and that variations in tastes across individuals are difficult to explain. Fortunately, it is not necessary to explain differences in tastes to see how heterogeneity across individuals will affect estimates of monetary equivalents. Informative statements and reliable estimates can still be made, even though worker's preferences may differ (Lazear, 1998).

It doesn't exist a typical worker, but there are several types of individuals, according the preferences they have. The graph below, provided by Lazear in the

manual “Personnel economics for managers” (1998), helps to understand how the preferences affect the decision of different workers.

Figure I.2 – Indifference Curves of Chess Players and Windsurfers



Source: *Personnel economics for managers*, Lazear, 1998

The author refers to two types of individuals, both liking wages and flexibility, but who places different weights on the two factors. He used chess players and windsurfers in order to make this more concrete: the first individuals don't rely on any kind of external factor, while the second ones rely heavily on factors that sometimes may be even unpredictable. This is the main reason why windsurfer are the ones likely to place a higher premium on flexibility than are the chess players, as evident by the graph.

The fact that windsurfer indifference curves are steeper than chess player indifference curves. Implying a greater willingness to trade money for flex-time.

In order to demonstrate this, consider point X in the graph. Moving a fixed horizontal distance along the windsurfer indifference curve comes about with a larger drop in wages than the same movement along the chess player indifference curve. The movement from X to Y implies the same horizontal movement as the movement from X to Z , but the vertical movement is greater from X to Z than it is from X to Y .

Windsurfers are indifferent between X and Z , which means that they are willing to accept a significant wage cut to obtain more flex-time. Chess players are indifferent between X and Y , which means that chess players will also accept a wage cut to obtain increased flexibility, but for a given amount of flex-time, the wage cut that a chess player will accept is smaller than what a windsurfer will accept. Windsurfers weight flexibility more heavily, and are therefore willing to give up more to obtain it.

After presenting this analysis, the author considers two firms. One firm needs workers who are willing to work to a posted schedule, like a car manufacturer. The other is willing to forgo some control over work schedules in order to pay lower wages, like a software firm. Point C is the offer respectively made by the first firm, while point S represent the offer purposed by the second firm. Analysing again the choice of chess players and windsurfer, it's possible to state the chess

players prefer C to S because C lies on a higher indifference curve for them than S . Windsurfers prefer S to C because S lies on a higher difference curves for them. At this point, the workers who care most about flex-time end up working for the firm that is best able to offer flexible schedules. Those workers who care least about flex-time end up working for the firm that needs to have a more rigidly scheduled work force and is willing to pay for it.

When workers are of different types, not the traditional interpretation holds. The dotted line CS connects points that are not only on different indifferences curves, but on indifferences curves that belong to different types of workers. S is on a curve representing windsurfer preferences and C is on a curve representing chess player preferences. The slope of this dotted line does not represent the chess players' willingness to trade wages for flexibility. It is steeper than the chess players' indifference curve that goes through C . So, it's possible to state that chess players at point C would not be happy about moving to S . The chess players are not willing to trade wages for flex-time at the rate implied by the slope of CS . Their indifference curve through C is flatter, meaning that they are less willing to give up wages for flexibility than the dotted line CS would suggest.

Conversely, the dotted line is flatter than the windsurfer's indifference curve at point S . Windsurfers would be happy to take the wage/flex-time trade-off implied by the move from C to S , because the windsurfers end up on a higher indifference

curve than when they started. They are not as willing to give up flexibility for increased wages, as would be implied by the dotted line.

The slope of the dotted line is the regression coefficient obtained from the data, the regression estimates understate the monetary equivalent of flexibility to those workers who have already chosen to work at flexible firms.

According to Lazear, even if we cannot read the monetary equivalent directly from regression coefficients, we can come close, being supported by three factors. First, the regression coefficient allows us, at a minimum, to place monetary limits on the value of a nonpecuniary factor, being a lower bound of the true monetary equivalent for those who choose firms with heavy concentrations of that factor and an upper bound of the monetary equivalent for those who choose firms with light concentrations of that factor.

Second, the regression estimates the true market price of the factor.

Third, the example of taste differences had only two types whose tastes were very different, but the real world does not consist of two extreme types, but rather a continuum of preferences. Under these circumstances, the regression coefficients will reflect the true monetary equivalent of every worker at the point that each worker has chosen to locate.

Market data are very useful, particularly when the proposed changes are relatively small and when the firm is not wedded to a particular group of workers. The kind of market data provided by compensation consultants can be of value, as long as it

is used appropriately. Consultant indexes based on market data must be used with caution. There is a great deal of skill, economic knowledge, and statistical knowledge required to construct valid indexes. Furthermore, their implementation leaves room for subjectivity, which can be invalidate conclusions based on the indexes.

The marginal worker's valuation determines market prices, in general, and the monetary equivalent of a job characteristics, in particular. Even if most of the world views a particular job characteristic as undesirable, the monetary equivalent associated with this characteristics will be positive as long as the number of individuals who view this characteristic as desirable is sufficiently large to fill all the jobs that have this characteristic.

Since individuals are willing to trade nonpecuniary factors for money it's always possible to express nonpecuniary factors as their monetary equivalents.

2.4 EMPLOYEE BENEFITS

Virtually all employers provide a variety of benefits to supplement the cash payments of wages or salaries to their employees, whether or not they offer particular plans. These benefits, some of which are required by law, must be considered a part of their total compensation. Like the money that goes directly into the paycheck, employee benefits are growing labour cost. This is why some

organizations use the term total compensation to emphasize that employee benefits are part of an employee's actual income (Sherman and Bohlander, 1992). Organizations offer benefits to their employees because they promote job satisfaction and inspire worker loyalty, which, in turn, can lead to better financial performance (Chan, Gee & Steiner, 2000; Rutigliano, 1986).

The International Accounting Standards Board (IASB) defines employee benefits as "all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment." (IASB 19). The IASB definition does not seek to differentiate the two aspects of compensation, namely, wages and benefits; its purpose is to ensure that all forms of payments to employees are correctly accounted for as some form of compensation and so the definition is necessarily an inclusive one (Klonoski, 2016).

Employee benefits constitute an indirect form of compensation that is intended to improve the quality of work life for an organization's labour force. In return, as better explained in the following chapters, employers generally expect employees to be loyal to the organization and to be productive.

One of the most important thing concerning benefits is their value. According to Lazear (1998) the value is defined as the amount that the individual would just be willing to pay to acquire a particular good or service. Any time an individual choose not to buy something, its value must, by definition, be less than the cost of the item. Of course, value depends on one's income. Since the amount that

someone is willing to pay for an item depends on how much money the person has, wealthier individuals may place higher “values” on some items that others regard as basic necessities. In any case, the amount that workers are willing to pay for a benefit is the appropriate notion of value for the employer.

It is also possible that the worker may place a higher value on a benefit than its cost. This happens generally in two cases: when the firm may be able to buy the benefit more cheaply than can an individual worker or when there may be a tax arbitrage opportunity involved, as said before. A tax arbitrage arises when a benefit can be given to workers and is counted as a cost for the purpose of the firm’s taxes, but is not counted as income for the purpose of the workers’ taxes.

In light of this, the firm should be able to determine how much a plan is worth to its workforce.

First of all it’s important to understand why employer choose to provide benefits to employees. According to Mitchell (1989), two answers are usually given to this question: there are economies to be obtained in benefit administration by employers and there are certain tax incentives related to the employer-provided benefits. Concerning the first answer, those economies occur because fixed administrative costs – at least for larger employers – can be spread over large numbers of people, thus reducing unit costs. Also, insurance programs require risk pooling.

In addition to these reasons, Baron and Kreps (1999) state that employer-provided benefits and perks concerns their impact on productivity, through screening – helping the firm attract and retain more able employees – and motivation – helping to elicit superior performance. Moreover, according to the same authors, this kind of benefits give employees a powerful incentive to remain with the firm. This, in turn, lessens voluntary quits, saving on training and turnover-related costs, and acting as a discipline on employees, who don't wish to give management any grounds for discharge.

Once explained the reasons why the employer decide to provide workers with benefits, in order to determine the successful benefit programs, it's fundamental for the firm knowing the amount that the benefit is worth to them. This is possible to do through market studies of the relation of wages to benefits (Lazear, 1998).

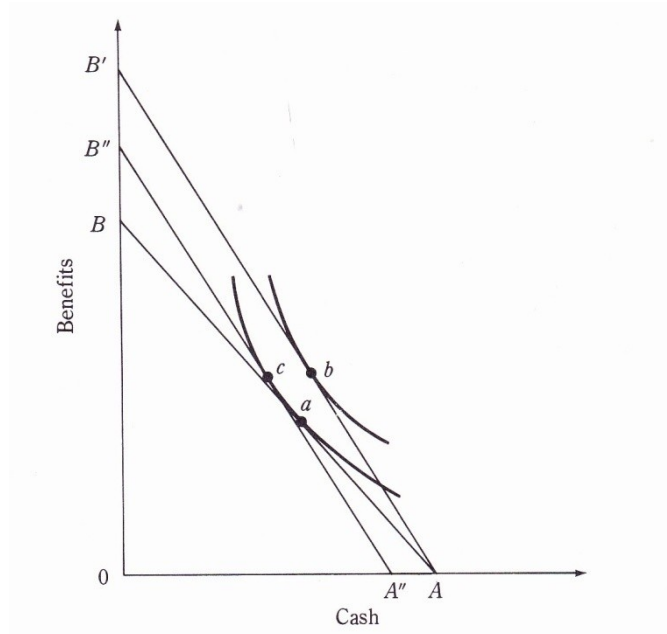
The risk-pooling approach, according to Mitchell (1989), helps explaining why employers often constrain benefit choices offered to employees. The employer, for example, may simply enrol every employee in a particular benefit plan, regardless of individual employee preference. There are exceptions to these employer-imposed constraints, but the exceptions can prove to be expensive.

As explained later, an example of an unconstrained program could be arrangements known as cafeteria plans, or flexible spending accounts. Under these plans, the individual employee is given substantial choices concerning what benefits he or she wishes to select. With constrained choices, therefore, it is likely

that there are some economies associated with risk pooling. Although every employee may not be pleased with the benefit package, the average employee receives benefits at a bargain rate. To maintain a reasonable matching of employee preference and the compensation package, sophisticated employers will periodically examine their benefit offerings and the desires of their employees. Monitoring and reflecting the preferences of the average employee may enable the employer to economize labour costs.

When considering employee preferences, the figure below that is a graph provided by Mitchell in "*Human Resource Management: an economic approach*" showing indifference curves of an average worker who faces a trade-off between cash wages and benefits, must be take into account and it makes better understand how they change with certain conditions.

Figure II.2 – Employee Preferences: Benefits Versus Wages



Source: Human Resource Management: an economic approach, Mitchell

If given only a cash wage income of $0A$ with no employer-provided benefits, the individual worker would reallocate his or her wages and purchase benefits in the external market along budget line AB . In this case, at a point a on figure, the employee depicted maximizes his or her welfare.

If the firm can obtain benefit plans more cheaply than the individual employee and makes such benefits available, the resulting budget line for the worker shown in the figure would rotate in a clockwise direction to a new line such as AB^I .

Were the employer to continue to pay out compensation equal to $0A$, the worker would enjoy higher welfare on line AB' by purchasing benefits through the employer at point b , that are more than the previous case.

However, there is no need for the employer to provide compensation dollars as high as $0A$, given the welfare improvement. Cash wages can be reduced to $0A''$, leaving the individual with a cash/benefit mix at point c . At this point, the individual has the same welfare as at a , but at a lower cost to the employer.

This analysis suggests that larger employers would be more likely than smaller employers to offer rich benefit packages. Larger employees, as will be seen in practice, would have the advantage of scale economies in benefit administration. And, indeed, larger firms do tend to offer richer packages than do other firms.

Despite the bias toward large firms, smaller firms often offer some benefits, in the following chapter some techniques that make this practice available also for smaller firms, will be presented.

However, this analysis doesn't take into account who pays for the benefits, that however can make the difference in the possibility for smaller companies to offer benefits.

Finally, the economies of scale and risk-pooling arguments could be applied to any large group, not just a group consisting of employees. Employees might buy benefits through professional organizations, unions, fraternal orders, religious bodies, and so on. Although some benefits are purchased through such groups,

employed individuals are likely to obtain most of their benefits through their employers. It is apparent, therefore, that there is another influence that tilts preferences toward employer-provided and employer-paid benefits.

Fundamental aspect for both employers and employees, concerning benefits, is the tax treatment. Mitchell (1989) states that a common rule is that the benefits should be offered to employees in a non-discriminatory manner, that is offered to most employees, not just high-paid executives. Generally, tax rules for plans such as pension that involve saving for retirement permit employer deductions and employee tax deferral until the benefits are actually paid out. Health and life insurance plans, up to a specified limit, are deductible to the employer and not taxable to the employee. A benefit is discouraged if the employer is not permitted to deduct its cost as a business expense. Making the benefit cost deductible for the employer puts the benefit on an equal footing with cash wages, if the recipient of the benefit must pay current taxes on its value. Permitting the recipient to defer taxes on the benefit beyond the current year provides a net subsidy to the benefit.

Sherman and Bohlander provide an explanation about the factors contributing to growth, writing that initially, employee benefits were introduced by some employers to promote and reward employee loyalty and to discourage unionization. Therefore, the very beginning of benefits' offer is characterized by a sense of benevolence from the employer and the paternalistic belief that employees were incapable of providing for their personal welfare and managing their private

affairs. Since the World War II, a wage freeze further stimulated the growth of employee benefits, cause they gave the possibility to the employers of retaining their employees even if prohibited by the freeze from raising wages.

Exactly in this period employers discovered the issues related to benefits. Hence, most employers then found themselves obligated to continue these benefits after the war because employees were unwilling to give them up. As will be explained later, this is one of the aspect that must be considered by an employer deciding to implement employee benefits plans.

Among the factors that contributed to the growth of employee benefits offer there are: the fact that employers were obligated to bargain for pensions and the exemption from personal income tax on benefits paid for by the employer (Lazear, 1998).

Contrary, there is the view of Bowen and Wadley, stating that many benefits plans create an environment of disincentives for the young and healthy, limiting the organization's ability to attract and retain such employees. For example, many employers provide extra compensation in the form of dependent coverage to their workers with families, but the principle of equal pay for equal work suggests that all employees doing the same job should receive the same total compensation regardless of family status. Similarly, the employer's contribution to the pension plan for a 30-years-old employee is approximately one-fourth the contribution for a 50-years-old employee for the same amount of pension commencing at age 65.

This difference discriminates against the younger worker, although legally it is not regarded as discriminatory. These examples illustrate the need for benefits programs that take into account the differing needs of a variety of workers in order to attract a highly capable work force.

In sum, labour tends to define benefits as indirect forms of compensation, something given in addition to base compensation and not related to extra work, accomplishing certain goals, or working non-standard hours. Employees consider benefits a part of their overall compensation, but when organizations are required by law to offer them, they may be thought of more as an entitlement than a negotiable part of compensation (Weatherington & Tetrick, 2000).

Managers tend to view benefits in a similar way, including some forms of compensation as well as certain job characteristics as benefits, but distinguishing between the direct and indirect costs of producing goods or providing services.

The management view, namely, that work benefits include “indirect and non-cash compensation paid to an employee” provides a useful definition of the term in that it recognizes that benefits are a category of compensation, but it places the locus of benefits expense in human resources rather than in production (Klonoski, 2016).

From a management perspective, the critical aspect of compensation, job characteristics, or any other form of employee management, whether they are direct or indirect, is the effect they have on accomplishing organizational goals.

As will be better explained later, there are two different kinds of benefits: discretionary and non-discretionary.

Regarding discretionary benefits, they have an indirect effect on performance. They motivate employees to perform better principally because they inspire employee loyalty and job satisfaction. Benefits that are mandated by regulation – thus, non-discretionary - create less organizational loyalty because, relative to discretionary benefits, they are less differentiated between organizations. Because of this, they are thought of as creating employee rights or entitlements (Weathington & Tetrick, 2000).

As the distinction between discretionary and non-discretionary programs is critical to understanding their motivational power, it may be useful to define them separately. Correspondingly, “discretionary benefits” are distinguished from “non-discretionary benefits” and the two categories of benefits may be described as following:

- Discretionary employee benefits are those organizational programs and practices that are not mandated by regulation or market forces, and that improve employee performance by increasing job satisfaction and/or organizational loyalty;

- Non-discretionary employee benefits are those organizational programs and practices that are mandated by regulation or market forces, and that create an employee right, entitlement, or expectation.

Critical to these definitions is that the employee must perceive the programs and practices as things that are to his or her advantage, and they are benefits only to the extent that they are understood as such.

Another important aspect of this definition is that job satisfaction and organizational loyalty are mediating variables between the benefits being offered by the employer and improved employee performance. When incentive-based direct compensation is offered, increased job satisfaction and organizational loyalty may be an outcome, but the employee's immediate motivation is to attain the incentive.

By contrast, programs and practices that keep an organization in compliance with laws or regulations or are in place because of mimetic isomorphism are less helpful in creating distinctions that foster organizational loyalty, but they are not without their purposes and beneficial effects. These types of benefits may assist in inspiring professionalism, may foster a positive view of being attached to a particular industry or profession, or simply be a positive aspect of having full-time employment. Such programs also reinforce organizational citizenship and credibility (Klonoski, 2016).

Non-discretionary benefits may afford employees benefits that have positive social outcomes, but do not provide individual organizations with a competitive advantage in their compensation packages. Similarly, benefits that may be common within an industry, such as reimbursements for professional certifications or recertifications, may be more thought of as attending to a professional status than to an association with the organization that is offering it.

Employee benefits have been the subject of much management study and analysis. For management, benefits have been long used to recruit and retain a talented workforce, and therein lies their utility.

As employee perceptions of the value of benefits have been demonstrated to vary based on whether they are mandated by regulation or are discretionary on the part of the employer, their usefulness as a recruiting and retention tool is similarly dependent on this distinction. A conceptual managerial definition of employee benefits should derive from the utility of the benefits as recruiting and retention tools and relate to the form and direction of employee motivation they take (Klonoski, 2016).

To conclude, worker participation and autonomy is just one part of the discussion on variable pay and work organisation, with significant attention also given to employee attitudes and employee participation. Employee attitudes are important as positive attitudes can mitigate negative externalities of variable pay systems, while negative attitudes can undermine their effectiveness (Calmi et al, 2005;

Pendleton, 2006). Building trust and organisational commitment within a company is a key aspect of building effective incentive systems, and there are various ways that these attitudinal outcomes can be achieved.

3. SUPPLEMENTARY REWARD SYSTEMS IN EUROPE

3.1 THE EXTENT OF SUPPLEMENTARY REWARD SYSTEMS

The European Union has very little regulatory competence in the field of pay; its role is limited to combating discrimination and promoting equal pay for equal work. However, because of their effects on growth and employment, wage developments are a matter of common concern for the EU Member States and are closely monitored in the framework of the employment and economic policy coordination process embedded in the Europe 2020 strategy¹².

The main objectives of this strategy are: improving the functioning of the labour market and promoting job creation in an equitable and sustainable manner, while respecting the autonomy of collective bargaining. Moreover, the European Employment Strategy and the Europe 2020 strategy set priorities to improve the quality of jobs and ensure better working conditions. Increasing employee participation in company financial results and offering better rewards could help to meet these goals.

According to the Annual Growth Survey for 2016, wage-setting frameworks, including collective agreements, should allow a certain degree of flexibility for differentiated wage increases across and within sectors, so that real wages and productivity developments are properly aligned over time.

¹²Eurofound (2016), Changes in remuneration and reward systems, Publications Office of the European Union, Luxembourg

The table below shows significant differences between Member States in the use of variable pay system.

Figure III.1 - Use of variable pay in EU Member States, 2013

Country	Payment by results	Pay linked to individual performance	Pay linked to group performance	Profit-sharing scheme	Share-ownership scheme	Any form of variable pay
Austria	53%	56%	28%	46%	7%	79%
Belgium	30%	32%	18%	20%	5%	47%
Bulgaria	34%	40%	41%	34%	5%	64%
Croatia	35%	40%	20%	19%	3%	49%
Cyprus	28%	37%	16%	22%	6%	53%
Czech Republic	58%	74%	36%	51%	4%	88%
Denmark	36%	53%	25%	35%	6%	71%
Estonia	57%	54%	49%	42%	8%	86%
Finland	46%	44%	34%	51%	12%	78%
France	39%	40%	26%	41%	8%	69%
Germany	31%	44%	19%	30%	3%	61%
Greece	32%	39%	21%	17%	2%	57%
Hungary	23%	34%	15%	16%	2%	51%
Ireland	31%	38%	23%	24%	7%	60%
Italy	18%	35%	18%	18%	3%	48%
Latvia	30%	48%	32%	23%	1%	67%
Lithuania	72%	67%	48%	53%	13%	85%
Luxembourg	38%	43%	29%	29%	12%	66%
Malta	46%	43%	24%	13%	0%	70%
Netherlands	39%	48%	24%	34%	7%	68%
Poland	39%	55%	40%	34%	4%	74%
Portugal	27%	35%	25%	21%	3%	53%
Romania	40%	45%	29%	32%	2%	60%
Slovakia	50%	55%	40%	53%	3%	85%
Slovenia	40%	72%	48%	55%	8%	82%
Spain	34%	35%	23%	25%	5%	52%
Sweden	30%	36%	24%	38%	9%	63%
United Kingdom	36%	41%	25%	26%	9%	63%
Total	34%	43%	25%	30%	5%	62%

Source: European Company survey, 2013 – Eurofound

According to these data from the 2013 European Company Survey (ECS), 62% of European establishments use some forms of variable pay. Many countries offer

incentives to introduce these systems in the form of tax rebates or social security deductions, as will be better explained later.

The first important consideration concerns Italy that is among the countries in which variable pay is considerably less prevalent. Hence, Mosca (2018)¹³ analysing Eurofound's reports, commented that only 35% of Italian companies link the remuneration of their employees to an assessment of their individual performance, and, even more significantly, only 18% of companies expect forms of productivity or profitability remuneration. Italy, in fact, despite that data are updated to 2016, does not shine in the comparative scenario, and indeed is distinguished by a degree of salary variability among the lowest ones in Europe.

Before analysing the structure of labour costs in European Member States is useful to know the difference from variable pay and supplementary reward systems, which actually is a broader concept than variable pay. Concerning this, the national reports from Eurofound's network of European correspondents, presents a clear explanation.

According to a research conducted in 2016¹⁴ by the European Foundation for the Improvement of Living and Working Conditions, supplementary employee reward systems are schemes set up by companies to reward performance and

¹³https://adapt.nova100.ilsole24ore.com/2018/04/19/la-retribuzione-variabile-in-europa-analisi-e-spunti-dal-rapporto-delleurofound/?refresh_ce=1

¹⁴ Eurofound (2016), Changes in remuneration and reward systems, Publications Office of the European Union, Luxembourg

motivate individuals or groups of employees or both that are additional to base pay. They may be monetary or in-kind but have a cost to the company in either case. Through these reward systems, employees receive extra pay components that are not necessarily paid out regularly and that can be variable and dependent on other factors.

The national reports from Eurofound's network of European correspondents presents particularly four different types of supplementary rewards systems that are increasingly used across European Members.

The first one is variable performance-related pay. Payments related to performance can take a monetary or non-monetary form. They do not include systems where the variable pay is related to elements such as extraordinary workloads or events, unsocial hours, long hours or especially difficult conditions: these are considered traditional payment systems. In Italy they are known as productivity bonuses. The second type regards wages and salaries in kind, remuneration in the form of goods or services and the proportion of remuneration provided in kind can be either fixed or variable. Some European Members implement them through different forms such as: cafeteria systems in Hungary, non-cash payments or benefits in kind in many other countries. Supplementary social security contributions belong to the third type of supplementary reward systems and they are paid fully or partially by employers to social security schemes in addition to contributions required by regulations. These contributions

can be collectively agreed, contractual or voluntary. The last type includes financial participation schemes that takes the form of profit-sharing, employee share ownership and stock options offered by the company to all or some employees. Profit-sharing schemes are incentive plans introduced by companies in addition to employees' regular salary. Share-ownership schemes are intended to transfer shares from the enterprise to employees. The transfer takes place at a price usually below the market price. Stock-option schemes typically include the right to buy the enterprise's shares in the future at a favourable price already fixed.

By looking at the types of supplementary reward schemes just explained, it's possible to include our country among those where performance related pay (PRP), so the variable pay schemes, are less extensive. Actually, in Italy, only 23% of employed workers benefit from variable pay schemes, related to productivity bonuses. Moreover, only 13.4% of Italian companies have productivity bonuses for their employees. These bonuses are usually linked to the achievement of productivity, efficiency and quality goals.

Concerning the wages and salaries in kind, while in many countries they are fairly common, only 9% of Italian employees enjoy fringe benefits. However, an Italian study¹⁵ about employee benefits, such as stresses that giving in-kind (or non-

¹⁵ ADAPT University Press, *"The Position and Function of Executive Staff Members in Italian Labour Law"*, 2012

monetary) benefits to employees increases employee loyalty, reduces absenteeism and improves the working climate, while tackling pressures exacerbated by the economic crisis. The same occurs when referring to the use of supplementary social security contributions. Hence, in Italy, 8% of employees are covered by supplementary pension schemes set out in collective agreements, according to the results presented in this research.

Eurostat's four-yearly Labour Cost Survey provides detailed data on the structure and level of labour costs, hours worked and hours paid.

Figure III.2 - Structure of labour costs as a percentage of total labour costs, EU, 2012

	Direct remuneration, bonuses and allowances	Payments to employees' savings schemes	Wages and salaries in kind	Collectively agreed, contractual and voluntary social security contributions	Other labour costs
Austria	64%	0.02%	0.73%	0.89%	36%
Belgium	66%	0.07%	1.35%	2.86%	30%
Bulgaria	75%	-	2.42%	0.19%	24%
Croatia	71%	-	5.79%	0.48%	24%
Czech Republic	65%	0.01%	1.13%	0.59%	34%
Cyprus	73%	-	1.35%	6.37%	20%
Denmark	73%	-	0.7%	7.08%	21%
Estonia	66%	-	0.79%	0.02%	34%
Finland	65%	0.08%	1.05%	0.25%	34%
France	62%	2.03%	0.19%	1.48%	35%
Germany	65%	0.21%	0.93%	2.92%	31%
Greece	71%	0.06%	0.38%	0.72%	29%
Hungary	64%	-	3.86%	0.48%	32%
Ireland	73%	-	0.85%	3.49%	23%
Italy	62%	0.01%	0.74%	0.64%	37%
Latvia	73%	-	0.13%	0.49%	27%
Lithuania	65%	-	0.15%	0.08%	35%
Luxembourg	75%	0.2%	1.65%	1.29%	23%
Malta	85%	-	0.8%	0.02%	15%
Netherlands	66%	0%	1.31%	8.24%	25%
Norway	66%	-	2.76%	1.09%	31%
Poland	76%	-	0.77%	0.32%	23%
Portugal	73%	0.01%	1.04%	0.9%	25%
Romania	70%	-	0.86%	-	29%
Slovenia	73%	-	1.16%	1%	25%
Slovakia	64%	0.01%	1.42%	0.63%	34%
Spain	66%	0.01%	0.61%	0.73%	34%
Sweden	59%	0.03%	0.94%	6.67%	34%
UK	72%	0.72%	0.82%	5.5%	21%
EU28	66%	0.52%	0.81%	3.07%	30%

Source: Eurostat, Labour Cost Survey

The latest available data, related to 2012, show that, for the EU28 as a whole, approximately 66% of labour costs are made up of direct remuneration, including

bonuses and allowances. Collectively agreed, contractual and voluntary social security contributions represent 3.07% of the average European labour cost, and wages and salaries in kind and payments to employees' saving schemes represent 0.81% and 0.52%, respectively. Stock options and share purchase schemes account for just 0.03% of the average European labour cost are made up of direct remuneration, including bonuses and allowances. Italy, compared with the rest of the countries, presents the highest percentage related to other labour costs. With regard to direct remuneration it's possible to state that the percentage is not among the highest ones, but regarding payments to employees' saving schemes, even if other countries don't even provide employees' with this option, the Italian percentage is among the lowest ones. The percentage linked to wages and salaries in kind and collectively agreed, contractual and voluntary social security contributions, seem to be more or less average.

According to national information, variable pay usually represents a relatively significant percentage of total salary levels, ranging from 5% to 11% in most of the countries where information is available. For example, productivity bonuses for Italian employees account on average for 4.5% of their gross pay.

3.2 BARRIERS TO INTRODUCTION

According to the Eurofound's studies¹⁶, notwithstanding the drivers for the introduction of these forms of remuneration, there are also some barriers. To begin with, companies involved in these schemes have to be in good economic shape, as often these variable forms take into account the annual results of the enterprise. A Croatian study¹⁷ suggests that in some sectors with a particularly tough economic environment, such as textile and leather production or construction, there is almost no possibility for the introduction of variable pay and remuneration as enterprises in these sectors have problems even with the payment of base pay.

Other barriers can also be identified, for example the legal challenges of discretionary payment schemes and bonus systems¹⁸. Hence, although performance can be a legitimate reason for differences in pay, the systems by which it is assessed should be robust. Antidiscrimination laws in some countries present legal obstacles to the introduction of such schemes, thus.

An Italian study¹⁹ highlights the opposition from some social partners (especially from workers' representative organisations), as these types of pay can increase

¹⁶ Eurofound (2016), Changes in remuneration and reward systems, Publications Office of the European Union, Luxembourg

¹⁷ Grilec, Mikulic, Omazic, 2016

¹⁸ UK report for the Office of Manpower Economics

¹⁹ CNEL-ISTAT, 2013

inequalities between workers, entail the risk of income instability, and are often subject to subjective evaluations from superiors.

Moreover, PRP schemes are not always considered an advantage by employees; sometimes, they are perceived either as difficult to obtain due to unrealistic goals or as a source of stress at work, especially in the workplace characterized by low fixed wages.

Excesses in the use of reward schemes in recent years for certain groups have resulted in important legislative changes aimed at reducing unnecessary risk-taking and short-term approaches, as will be explained in the next paragraphs.

According to the Welfare Index PMI report²⁰, in these years the provision of employee benefits has got through the sizing barriers, reaching also the smaller companies in Italy and it seems to be a good perspective for the future, where more small companies can start to implement welfare practices. The results of this analysis shows that, obviously, bigger companies are the ones that find the implementation easier, enjoying the advantages of benefits; but also in the small and medium enterprises the growth has been particularly fast. Some small enterprises that wanted to enjoy the implementation of an employee benefits plan but were less-favoured due to their dimensions, start to be opened to the external community, where they operate. In order to do this, they created some alliances with other small or medium enterprises and several public or private subjects

²⁰ Welfare Index PMI – Rapporto 2019

established in the same territory, using the entrepreneurial associations and other common services.

Furthermore, analysing the barriers, it's not only about being informed on the legislation and the techniques available for implementing employee benefits, but also certain professional competences are required in order to manage the initiatives and especially small companies can find some difficulties in these terms because they don't have dedicated resources²¹.

The prevalence of supplementary reward systems has increased in recent decades in most European countries, although the recent economic crisis had a negative impact in most Member States on their use as enterprises seek to reduce labour costs and this could represent another barrier.

3.3 EMPLOYEE'S PERSPECTIVE

Cooper and colleagues (1992) argued that when employees are involved in designing their own rewards, they perceive them as fair. This research suggested that giving employees a choice regarding their rewards will increase performance. Furthermore, employees welcome these systems, provided that they are applied in a fair, controlled and transparent manner by employers.

²¹ Welfare Index PMI – Rapporto 2019

Employee's perception of justice, control and transparency of the variable pay system has a positive impact on their motivation, which in turn affects their engagement (Morais, 2013).

Tax burdens for non-monetary benefits are often much lower or even absent compared with the tax treatment of monetary pay, an element that, according to Norwegian enterprises, employees also appreciate²².

Before explaining in depth the main advantages that employees receive from supplementary rewards schemes, it's interesting to analyse the results of the researches conducted by European Foundation for the Improvement of Living and Working Conditions in 2016²³, that are able to outline such a profile of the employees enjoying and appreciating supplementary reward systems.

First of all, some differences could be found in terms of gender. Actually, there is strong evidence from a large number of countries that variable forms of remuneration and reward are more common among men than women, also in Italy where 13% of Italian men receive in-kind benefits in comparison to 6% of women. A possible explanation for these gender differences is the larger proportion of men in higher positions and in sectors where variable pay systems are more common, for example, consultancy, finance and information and communications technology (ICT).

²² Statistics Norway, 2013

²³ Eurofound (2016), Changes in remuneration and reward systems, Publications Office of the European Union, Luxembourg

Another aspect about employees enjoying supplementary rewards schemes is the age. Official information from some countries show that rewards in addition to basic salary are more common among the middle-aged employees than among younger and older employees.

In addition to these variables, also the level of occupation is able to affect the use of these systems. Hence, they seem to be more common among individuals in higher positions within an organisation. Therefore, managers and executives, professionals and technicians usually benefit most from these systems, even if a company that offers a certain amount of benefits to all its employees, achieve better results in all the terms.

Concerning the advantages for employees related to supplementary reward systems it's important to say that thanks to the particular tax treatment the worker has the opportunity to receive an amount that is higher than the one generally received in cash. Actually, by reducing pre-tax income, the employee is not only able to lower the employer's contribution, but also his or her taxable income while raising the amount of take-home-pay, cause taxes are less. More specifically, not being tax subjected, it is not included in the pre tax income and workers will receive it exactly for the entire amount, without any kind of reduction, to which generally their remuneration in cash is subjected²⁴. In the special case of cafeteria

²⁴ ADAPT, "Welfare for people – Secondo rapporto sul welfare occupazionale e aziendale in Italia", 2019

plans, that will be deeply analysed later, employee can choose benefits to meet their needs which allow them to highly value these benefits, increasing also the perceived value of their reward. By having a choice among the several benefits offered by their employer, the sense of control and involvement is higher. Through an accurate communication, that must be clear and honest, employees have a true idea of the full worth of the benefits package they receive and employers do not provide benefits that are not valued for them.

From the perspective of employees, there is also increasing interest in supplementary pay systems on top of wages, especially among highly skilled workers. However, in some cases, employees do not see supplementary rewards as an advantage, especially when fixed wages are low.

Therefore, it is not clear that these forms of remuneration can incentivise all types of workers (Hammermann, 2013). For instance, employees whose motivation is largely intrinsic might not be reached at all or might even become demotivated by existing rewards, while employees whose motivation is extrinsic might be attracted or incentivised to work 'only' for the money and neglect other features of the job, such as quality of work or teamwork. It is an open question whether the type of reward or the choices available to employees about these reward schemes may also influence the motivation of workers.

3.4 EMPLOYER'S PERSPECTIVE

The historical evidence suggests that employers did not rush into the offering of fringes until subjected to external pressures and incentives (Mitchell, 1989).

The same author stated that economic analysis has been applied to the provision of benefits from the employers' perspective, apart from the tax, scale, and risk-pooling aspects already discussed. The emphasis in this analysis has been on cost savings and productivity improvements resulting from benefit-related turnover reduction and incentives.

Concerning Europe, according to the Eurofound's report, on the whole, employer organisations are mostly in favour of employee reward systems. The opinion that performance-based pay increases employees' motivation, and thus company productivity, is held in most countries, including Austria, Croatia, Greece, Ireland, Italy, Latvia, the Netherlands, Norway, Portugal and Slovenia. From the perspective of employers, variable performance-related pay (PRP) and monetary or non-monetary benefits can provide more flexibility in remuneration than fixed pay. They can help foster strong business performance by linking employee rewards to business objectives and, incidentally, shifting part of the business risk and pressures to workers.

In addition to strengthening motivation, productivity and adaptability, employers' representatives also highlight the financial advantages of employee reward

systems. Hence, enterprises might be persuaded to use these forms of remuneration for reasons other than employee motivation. In France, for instance, national legislation obliges enterprises to adopt some type of supplementary reward (Delahaie and Duhautois, 2013). A Swedish survey found that 63% of the respondent financial companies were going to reform their remuneration systems due to new regulations²⁵. In Italy, two of the biggest employer organisations – the Italian General Confederation of Italian Industry and the Italian General Confederation of Trade, Tourism and Services – are in favour of variable pay schemes, emphasising the combination of social contributions and tax incentives²⁶.

Also for employers, before moving on to the advantages received through providing employees' with supplementary reward schemes, it's interesting to explain, on the basis of European Foundations for the Improvement of Living and Working Conditions' study²⁷, which are the more likely employers to provide these systems according to the sector in which they operate, their size, the geographical span and the region. Starting from the sector, an initial differentiation should be made between private versus public sector and economic sector. Concerning the private versus public sector, national data show that

²⁵ PWC, 2014

²⁶ Confindustria and Confcommercio

²⁷ Eurofound (2016), Changes in remuneration and reward systems, Publications Office of the European Union, Luxembourg

supplementary reward schemes are more widespread in the private sector than in the public sector in a large number of countries, although there are some exceptions to this. According to Eurofound²⁸ data, private sector workers are much more likely than public sector workers to benefit from bonus schemes (37% versus 3%), to earn PRP (22% versus 6%), to receive financial participation-based payments such as share options, profit-sharing or gain-sharing (21% versus 3%) or to receive non-monetary incentives (13% versus 2%). In contrast, traditional regular salary increments are more common among public employees (60% versus 41%).

Focusing on the analysis of economic sector, according to Eurofound²⁹, within the private sector, reward systems are particularly widespread in certain economic sectors, especially the ICT, financial and insurance, and consultancy sectors. In Italy, productivity bonuses are used by 17.7% of companies in the manufacturing sector, compared with 13.9% in construction, 11.6% in social and personal services, and 10.2% in market-oriented services. However, in our country: benefits in kind, such as access to nurseries, care services and leisure activities, are more widespread in tertiary-level companies, especially those involved in ICT, than manufacturing companies.

²⁸ Eurofound (2016), Changes in remuneration and reward systems, Publications Office of the European Union, Luxembourg

²⁹ Eurofound (2016), Changes in remuneration and reward systems, Publications Office of the European Union, Luxembourg

Focusing on company size, larger companies are more likely to offer supplementary rewards and that their proportion of overall remuneration is greater in larger companies. The fact that employees in larger enterprises are more likely to be covered by collective agreements could explain this strong size effect.

The geographical span, as mentioned before, is another aspect that has certain relevance. Hence, national information shows that supplementary reward systems are especially common in national branches of foreign capital and multinational companies. While, in terms of region, especially Italian country shows that variable forms of pay are more likely to be used in central locations and developed regions. More specifically, in Italy, productivity bonuses are more widespread in the north of the country (15.5% in north-western regions, and 17.1% in north-eastern regions) than in the south (7.2%). This is confirmed also by the results of Italian empirical researches, especially the ones conducted by privates such as ADAPT and Generali³⁰. Similar geographical patterns can be found in relation to variable pay schemes.

There is very limited national information on the relationship between working conditions and the use of supplementary reward systems. Generally speaking,

³⁰ ADAPT, "Welfare for people – Secondo rapporto sul welfare occupazionale e aziendale in Italia", 2019
Welfare Index PMI – Rapporto 2019

these forms of remuneration are more common in workplaces that both foster their employees' involvement and job autonomy and pay higher salaries³¹.

The very first advantage received by the employer is the one related to tax reductions and contributions, due to the reduction of pre tax income of the workers. Contrary from monetary compensation generally offered, benefits allow the firm to provide the worker with a certain amount, without facing any additional cost, such as taxes or contributions. In the particular case of cafeteria plans, that will be analysed later, an important aspect concerning the costs, is that this cost is known and fixed, irrespective of the choices that employees make, this allows employers to cap future costs³². Then, also in terms of employer branding, there are some advantages for employers that offer benefit because they are seen to be more responsive to the needs of an increasingly diverse, demanding and ageing workforce. A competitive benefits package, able to improve employer branding, represents an additional strength for the employer in attracting and retaining key personnel. This advantage is supported by a fundamental responsibility of the employer, that is the choice of the benefits to include in the program. In fact, employees have different needs and requirements at different stages of their lives. Offering a flexible benefit scheme gives to the employer the

³¹ Eurofound (2016), Changes in remuneration and reward systems, Publications Office of the European Union, Luxembourg

³² ADAPT, "Welfare for people – Secondo rapporto sul welfare occupazionale e aziendale in Italia", 2019

ability to recognise this diversity among employees and provide a benefits package that is both relevant and engaging for each employee³³.

Several reasons are suggested from the employer perspective for the likely increase in supplementary rewards, such as organisations' growing need for more flexibility and a strengthened connection between pay and enhancing business performance. Employers also need to increase their attractiveness and differentiation, especially in the context of an ageing population, shortages of professionals, fewer potential workers, and a requirement for higher skills or qualifications (Slomczewska-Klimiuk, 2014).

In conclusion, from the perspective of employers, variable performance-related pay (PRP) and non-monetary benefits can provide companies with more flexibility than fixed forms of remuneration: they can encourage stronger business performance by linking employee reward to business objectives and, incidentally, shifting part of the business risk and pressure to workers. They are also a powerful tool to recruit and retain key employees and to enhance a company's attractiveness as an employer, especially in highly competitive work environments³⁴.

³³MASSAGLI E., SPATTINI S., TIRABOSCHI M, 2019, "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

³⁴Eurofound (2016), Changes in remuneration and reward systems, Publications Office of the European Union, Luxembourg

3.5 NATIONAL REGULATIONS

The regulation of supplementary reward systems is a mixture of conditions set in labour codes and other regulations such as tax provisions and terms agreed in collective agreements. Recent changes to national legislation have sought to establish a stronger control of bonus payments in the financial sector, especially in our country with the Stability Law of 2016.

As a rule, terms and conditions included in national labour codes or employment legislation set general parameters or give options to be further decided by social dialogue. The scope of legal regulations can depend on the role traditionally played by social dialogue in each country and the leeway left to social partners. In a few countries there are no relevant laws or regulations relating to remuneration. In the meanwhile, some countries have regulated the tax treatment and the determination of social security contributions of supplementary reward systems in some way. The type of regulatory approach that concerns our country is the regulation by existing legislation, together with other countries as Austria, Bulgaria, France, Romania and Slovenia.

Regulations, that do exist, concern mainly how different benefits should be taxed. In Italy, the provision of variable pay schemes is set out in Article 2099 of the Italian Civil Code. This establishes that the pay level is set, wholly or in part,

according to one of the following: hourly rate, piece rate, profit- or product sharing, commission fees or benefits in kind.

An important change in several countries in Europe is the introduction of stricter rules for bonus payments and other additional benefits paid in the financial services sector. These rules are designed to safeguard the financial stability of the banking system and were introduced particularly as a consequence of the economic crisis³⁵.

In many countries, supplementary employee reward systems are supported or incentivised through favourable tax treatment or reduced social security contributions, as said in previous paragraphs., especially our country is one of the few countries that are supported by measures that encourage several reward systems: payment in kind, supplementary social security contributions, financial participation: The listed measures are supported both in terms of advantageous tax treatment and reduced social security contributions, except for the reduced social security contributions in case of supplementary social security contributions. These information are provided by Eurofound in the study conducted in 2016³⁶.

³⁵ Eurofound (2016), Changes in remuneration and reward systems, Publications Office of the European Union, Luxembourg

³⁶ Eurofound (2016), Changes in remuneration and reward systems, Publications Office of the European Union, Luxembourg

Favourable tax regimes for financial participation schemes seem to be less common compared with advantageous regimes for salaries in kind and supplementary pensions, although they do exist in some countries.

Some countries, particularly those with public budgets under great pressure, have recently reduced favourable tax and social security measures to raise tax revenues. The negative economic situation and public deficit concerns in many European countries seem to be behind this trend, as stated before. In contrast, a few countries have seen positive trends.

The degree of integration of supplementary reward systems in collective agreements is highly influenced by the role of collective bargaining in each country, as well as by the type of reward scheme used and the existence of legislation. There are many examples of countries where employee reward systems are an integral part of collective bargaining at sector level. In these cases, conditions arranged for the whole sector are usually further developed in company-level agreements. One example presented by Eurofound, is about the collective agreement in the chemical sector in Italy, which establishes the creation of “participation bonuses” based on a company’s economic performance. Work councils³⁷ in each production unit establish the details of the participation bonus, based on agreed targets and programmes related to productivity and economic performance. During the negotiation, the parties look at the situation of the

³⁷*Rappresentanze sindacali unitarie*

company and workers, as well as assessing development prospects and competitiveness and profitability conditions. In Italy, collective bargaining plays a fundamental role in the identification of supplementary social protection schemes, which are normally established at sector level. Bargaining at company level commonly discusses variable pay schemes, identifying the criteria and rules to be applied. Many surveys conducted especially by ADAPT, are focused exactly on the collective agreements including benefits' offer and the results of these surveys show that the introduction of corporate welfare initiatives in collective agreements is strongly increasing, because firms are interested in introducing these kind of benefits for workers, also feeling them supporting by the particular national regulation³⁸.

Supplementary employee reward systems are supported or incentivised by public authorities via favourable tax treatment, particularly for salaries in kind for instance in Finland, Hungary, Norway, Portugal and Sweden and supplementary pensions in the Czech Republic, France, Italy and Malta, or via reduced social security contributions, mainly for salaries in kind. This is the case of Belgium, France, Greece, Italy and Portugal. Some countries, such as: Greece, Hungary, Ireland, the Netherlands, Poland, Portugal and Spain recently introduced changes

³⁸ADAPT, "Welfare for people – Primo rapporto sul welfare occupazionale e aziendale in Italia", 2018

in these schemes, aimed at decreasing available tax and social security advantages in a context of fiscal consolidation.

3.6 CHANGES AND FUTURE PERSPECTIVES

According to the information contained in Eurofound's report coming from several countries, the presence of supplementary employee reward systems has increased in recent decades, both in terms of the number of companies using them and the number of employees covered, as the following examples show. Information from a large number of countries also shows that the recent economic crisis had a negative impact on the use of supplementary variable remuneration and rewards, which have been cut in order to reduce labour costs and governments have reduced the tax or social security advantages that they entail. This situation seems to be affecting all worker groups, including top managers – as an Austrian study³⁹ on bonus payments showed recently – as well as large enterprises. A 2014 Romanian study⁴⁰ of remuneration packages in large enterprises shows that, after 2008, the share of variable bonuses and in-kind benefits experienced a decreasing trend. As a result, fixed income composed by basic salary and fixed bonuses, now represents 92% of the total remuneration package, compared with only 69% in 2008. Performance-related bonuses have decreased to 5% and extra-wage bonuses

³⁹ *“Living and working in Austria”*, Eurostat, 2016

⁴⁰ *“Living and working in Romania”*, Eurostat, 2014

to 3% of total remuneration. This compares with 20% and 9%, respectively, in 2008. However, information from other Member States contradicts this negative relationship between the economic crisis and the use of supplementary rewards. According to Eurofound⁴¹, the main reason why this contradiction is verified is the following, given the salary freezes applied by many companies, variable remuneration and social benefits are a convenient tool for increasing salaries, particularly in crisis times when companies do not want to take the risk of increasing the fixed part of the salary. Moreover, they are a powerful way to retain human resources, deemed indispensable for the company's survival and to link wage increases to the results of the organisation.

Looking to the future, the limited existing information suggests that the use of supplementary reward systems is going to increase, especially in the context of economic recovery and particularly in the private sector. However, it is not clear whether these forms of payment will be welcomed by other groups of workers and their representatives. In some countries, they may be seen as a way for managers to reassert control in a context of lower or stagnant fixed-salary levels, increasing job insecurity and high unemployment levels.

Finally, it is worth emphasising the key role of both the power balance between the social partners, including union density and collective bargaining coverage,

⁴¹Eurofound (2016), Changes in remuneration and reward systems, Publications Office of the European Union, Luxembourg

and public incentives, for example tax rebates, in making these forms of payment more attractive, for both employers and employees.

An important role, in supporting the supplementary reward system is played by the trade unions. According to the national information gathered for Eurofound's study, unions generally have a positive opinion of these systems. However, a criticism should be highlighted, indeed unions distrust performance-based pay systems, mainly because they could cause injustice and discrimination or result in other negative outcomes, particularly if they work at an individual rather than a collective level. Therefore, fairness and equal inclusion of all workers, as well as discussion and agreement with their representatives, are essential if trade unions are to accept these schemes. The economic situation of the country may have an influence on the openness or readiness of trade unions to accept supplementary reward systems.

In Italy, both trade unions and employer organisations tend to have a positive stance towards the increased adoption of variable pay. In recent years, the debate has mainly focused on the relationship between salaries and productivity, in view of the continuing stagnation of productivity in Italian companies.

In some EU Member States, unions criticise the possibility that supplementary reward systems might present an obstacle to decent basic fixed salaries.

There are several recent Italian studies⁴², conducted mostly by private entities, about employee benefits topic, also known as corporate welfare practices. OCSEL⁴³ defines corporate welfare as the most significant new fact about bargaining in recent years. Data collected by this observatory, show an incredible increase of the bargaining in terms of corporate welfare, presenting a percentage of agreement predicting welfare measures equal to 18% in 2014/2015 that became 32% in 2017. They highlight especially the willingness of employers to implement these new practices and some actual data confirm it.

Also the Italian Ministry of Labour investigate about this phenomenon and what comes out from their surveys is that corporate welfare is not only an increasing practice but it is also evolving towards territorial level⁴⁴.

One of the most interesting thing is the one related to solutions available for small companies that have difficulties in implementing employee benefits plans for the reasons explained before. The reduced dimensions of these entities and the lack of knowledge and methodology in this field, represent significant limits for them that don't allow the implementation of welfare practices for employees. In order to fill this kind of gap, some companies had resorted to cooperation, participating to

⁴² Welfare Index PMI – Rapporto 2019

ADAPT, “Welfare for people – Primo rapporto sul welfare occupazionale e aziendale in Italia”, 2018

⁴³OCSEL: Osservatorio Contrattazione di Secondo Livello, established by CISL (Confederazione Italiana Sindacati Lavoratori)

⁴⁴<https://www.welfareforpeople.it/dal-ministero-del-lavoro-il-nuovo-report-su-detassazione-deposito-contratti-luglio-2019/>

project shared with other small companies and initiatives supported by representative organisations. The main objective is to create well structured networks and build the critical mass needed to disseminate corporate welfare⁴⁵. This kind of networks are subjected to further and accurate evaluations in order to determine their actual effectiveness.

⁴⁵ Welfare Index PMI, Rapporto 2019

Grandi D., Massagli E., Zucaro R., Verso il welfare aziendale territoriale per le PMI: esempi e modelli, in Massagli E. (a cura di), "Il welfare aziendale territoriale per la micro, piccola e media impresa italiana", ADAPT Press, 2014

4. CAFETERIA PLANS

4.1 HOW CAFETERIA PLANS WORK

One of the problem with providing a specific benefit is that the same benefit does not suit every worker. (Lazear, 1998).

Nowadays, the package including all the benefits provided by a firm to its employees, is also known as employee benefits plan or welfare plan⁴⁶. It requires an accurately strategic planning in order to be functional to firm's objective; many companies have recently started to implement it.

When measures and the ways of provision are defined, in the specific phase of planning the welfare plan, as explained in the next paragraph, the company can choose between a more restrictive indication about some specific measures and give more freedom to the workers to choose the measures to include in his or her basket of benefits, according to the amount of welfare given to him or her. Providing for flexibility could be a great solution to accommodate the individual needs of employees. This practice is known as flexible benefits plans, cafeteria plans, self-designed plans, or employee choice plans.

Flexible benefit scheme can form an integral part of the organisations' reward strategy, supporting also organizational goals and strategies. Furthermore, introducing a flexible benefits scheme will increase the perceived value of the

⁴⁶ MASSAGLI E., SPATTINI S., TIRABOSCHI M, 2019, "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

reward package offered to employees. As explained before, this could be a strong motivator for employees, in order to increase also their productivity⁴⁷.

There are many authors in the economic literature writing about cafeteria plans, focusing on their methodology, their extent and their advantages or disadvantages. To accommodate the individual needs of employees, there is a trend toward flexible benefits plans, also known as cafeteria plans, self-designated plans or employee choice plans. These plans enable individual employees to choose the benefits that are best suited to their particular needs. They also prevent certain benefits from being wasted on employees who have no need for them.

According to Baron and Kreps (1999), they are about an increasingly popular scheme for structuring employee benefits in the so-called cafeteria approach.

Basically, employees are given a “budget” of funds for purchasing benefits and a list of available benefits with internal prices.

Typically, employees are offered a basic or core benefits package of life and health insurance, sick leave, and vacation, plus a specified number of credits they may use to “buy” whatever other benefits they need. The ability of flexible benefits plans to manage costs and increase the level of employee satisfaction has stimulated interest in this kind of programs (Sherman and Bohlander, 1992).

⁴⁷ MASSAGLI E., SPATTINI S., TIRABOSCHI M, 2019, “Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori”, ADAPT

It's important to understand that the more variability of goods and services offered to the workers, the more appreciated will be the welfare plan by the workers themselves⁴⁸. Nevertheless, all the possible consequences of this kind of benefits' implementation must be taken into account. Moreover, this kind of benefits must come directly from the employer or another subject that has an economic agreement with the company but not with the employee⁴⁹.

The demand for employers to provide flexible benefits is now increasing and a Europe-wide survey on employee choice in benefits conducted by Mercer⁵⁰, leading consulting company on human capital issues, has demonstrated it.

Some of the European countries, for example Italy, set certain requirements to be respected, in order to consider flexible benefits as such: they must concern certain areas, which will be analyzed later, and they must be a proposal to the whole workforce or a whole category. The most common benefits areas are: security and prevention, complementary healthcare and prevention; but there are also some areas that are not so common but that are growing fast, like: support services, support for vulnerable individuals and social integration, as well as extended welfare. The areas less developed in terms of welfare are: culture and spare time, support for children education.

⁴⁸ MASSAGLI E., SPATTINI S., TIRABOSCHI M, 2019, "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

⁴⁹ MASSAGLI E., SPATTINI S., TIRABOSCHI M, 2019, "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

⁵⁰ <https://www.mercer.it/>

The definition of flexible benefits provided by a practical manual for companies that want implement corporate welfare, written by UBI Banca and ADAPT is the following: flexible benefits are utilities of various kinds provided by the employer, directly or through foreign suppliers. They take part of corporate welfare initiatives that are characterized by the variety and high customization of the measures which workers can benefit. Flexible benefits are welfare measures through which the company, by valuing the individuality of workers, allows them to choose, based on their needs, from a range of services made available (called cafeteria benefit). This particular method of granting benefits is functional to intercept the real needs of workers and maximize the effectiveness of welfare policies in place in the company.

This particular scheme presents the same advantages presented in the previous chapter, so that tax efficiencies, efficiencies of scale in procurement and administration, market power, reduced problems of adverse selection. We saw in the previous chapter that benefits present tax advantages not only for the employer but also for the employee, that usually receives amounts after taxes much lower than the one before taxes are calculated Also the motivation on the part of employees continue to apply. In addition, since the firm controls the list, it can direct expenditures at least somewhat; and employees can use some of this money to meet critical needs.

The primary advantage of providing a cafeteria plan as opposed to any specific set of benefits is that the firm can provide the most value to the worker for a given amount of expenditure (Lazear, 1998). Hence, a widely offer represents a valuable element for the workers, that has also a great impact on the degree of the appreciation by the workers. Particularly, the “on demand” form of welfare and the institution of a welfare account seems to be better for the employee in order to satisfy their needs concretely⁵¹ and in order to improve the appreciation degree by the workers, that is fundamental to consider a welfare plan actually successful.

Furtado (2009) in a study on compensation and benefit systems has found that these systems should be strategically designed for the purpose they are intended to plan and the results they are trying to drive. There are many important aspects that an employer must take into account when setting a flexible benefits plan, because in order to offer generous benefits, you must first practice careful financial planning, as will be explained in the next paragraph. Hence, not all the benefits packages are convenient and some of them could also prove not so cheap and costs can rise exponentially as your company size increase. Furthermore, it’s not so recommended to take a certain benefit away once you offered, because your economic situation forces you to take it off.

⁵¹ MASSAGLI E., SPATTINI S., TIRABOSCHI M, 2019, “Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori”, ADAPT

Obviously, the implementation of a flexible benefit scheme must meet the company's objective strategically. It is important, thus, that the approach to this practice is strategic and consciously developed from the very first phase, that is the definition of the strategy, until the end with the communication and the employees' assistance⁵².

Since the use of the flexible benefits affect the working conditions of the employees, it could lead to an improvement but also to a decline that will be very difficult and complex to solve. The workforce is the very first element that support the company's activity, so that, as all the company's aspects, needs to be accurately treated. The very first way to enhance the workforce is involving them and communicating to them the designed welfare plan. It is therefore essential that businesses and their employees clearly informed clearly about our employee benefits (Duda, 2011). Also Koubek (2007) states that employees may choose the appropriate employee benefits only if they have adequate information and are carefully evaluate their needs. Awareness of employee benefits will increase when the written form of information sent to each worker distinctly. It is also appropriate to use the meeting, conveniently located prominent posters, corporate radio, etc.

⁵² MASSAGLI E., SPATTINI S., TIRABOSCHI M, 2019, "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

The flexibility given to employees, so the degree of freedom in choosing the benefits they want, could be also an issue because it can lead to inappropriate choices, that don't meet the employer's expectations and objectives. It means that, when schemes are being introduced, it is important to estimate the likely uptake of specific benefits. The size of the offer and the significant variety of offers is important to set the degree of flexibility, because allow to satisfy several needs and gives the opportunity to design a more customized welfare plan, but it represents a very crucial aspect, too. Hence, especially when the company doesn't dispose of a great amount of resources, there is the risk of dispersion and if the only matter is about the provision amount, there could lead to trivialization. First of all, thus, what company really needs is a true project that correctly respond to employees' and their families' needs, also considering the territory in which it operates. This project should be able to create a value that is greater than the corresponding economic one, also easily to be recognized. This is the reason why some workers are involved by the employer in the designing phase.

One of the main objectives in deciding the amount of flexibility, is to avoid too many adverse selections, that occur where employees make significantly different choices⁵³. Only following this objective, the flexible benefits plan can be considered successful. Another aspect to care about is that employees mustn't be

⁵³ MASSAGLI E., SPATTINI S., TIRABOSCHI M, 2019, "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

encouraged to make selections that will damage their own financial and physical security. With this regard, including some core benefits guarantees a minimum level of protection. The reduction of asymmetric information can also help you in receiving employees' confidence, so that showcasing your local reward offerings through Total Reward Statements will give staff a complete picture of their financial reward package.

Focusing on the implementation of flexible benefits in our country, the Welfare Index PMI 2017 report highlights that most of the Italian medium and small enterprises is devoid of this kind of welfare practice. The main reason why is the lack of knowledge about this instrument and its mode of use or advantages. A survey conducted by UBI Banca and ADAPT based on the analysis of collective agreements, confirms that in our country, the dissemination of this kind of practice is limited to the big manufacturer companies with an important prevalence of mechanical and chemical-pharmaceutical industry.

Anyway, according to the survey conducted by Mercer at European level, approximately two-thirds of the respondents in our country were considering implementing some form of choice programme, even if in all Europe the companies that were most prone to implement flexible benefits programmes, are multinational companies. According to Pavolini and Carrera (2012) one of the most relevant difficulties faced by country are related to the lack of state

intervention, differently from nations like Netherlands and Sweden, where there is a strong public presence.

4.2 MAIN ISSUES OF FLEXIBILITY

A cafeteria plan, also called flexible benefits plan, gives a worker more flexibility in benefit choice. Although plans vary in their specifics, the basic idea is to provide the worker a fixed number of benefit amount, which can be spent on a variety of benefits (Lazear, 1998).

However, Baron and Kreps (1999) highlight that some of the economic motivations may be diluted to some extent under a cafeteria plan. For example, economies of scale may be reduced somewhat by virtue of employees choosing to allocate benefit entitlements across various benefit categories or, within a particular category, among various providers. Cafeteria plan may also exacerbate adverse selection problems by giving employees the ability to allocate benefit budgets into particular categories based on private information. Furthermore, cafeteria benefit systems may also transform benefits administration into something more clearly economic in character, potentially harming the gift-exchange effects that employer sought to create (Baron and Kreps, 1999).

Also other economics confirm this kind of issues that may born by the implementing flexible benefits plan. Actually, Lazear (1998) stated that one of the

major issues associated with cafeteria plans is self-selection that may work in ways that are not to the firm's advantage. Hence, self-selection may work in ways that are not to the firm's advantage. By providing benefits that have different values to different workers, the firm implicitly gives higher benefit amounts to some workers and lower benefit amounts to other workers, even though the number of benefit dollars is the same per worker. By choosing the kind of benefits to offer or the needs to satisfy by offering certain benefits, firm make such a restriction of the potential workers. Actually, if properly use, it doesn't represent an issue, but also a sort of strategy. Firms can strategically use the provision of certain benefits in order to attract the kind of workers that it prefers. This occurs when firms prefer to attract workers with family cause it considers them more productive⁵⁴ or when firms offering additional education for worker as primary benefit, think that the desire for additional education is correlated with the underlying quality of a worker, thus, providing this benefit helps sort out the good workers from the bad.

The problem is that, as long as the firm leaves some flexibility to the workers, it loses the opportunity to choose the workers it desires. Therefore, as long as the firm has some flexibility in the prices that it charges for the benefits, specific

⁵⁴ There is empirical evidence that shows that married men command higher wages in the labor market than unmerried men. The effect works in the opposite direction for women. See Kenny (1983) and Mincer (1978)

types of workers can be encouraged but also discouraged from working at the firm. It may be easier, however, to sort workers without a cafeteria plan.

Also according to Mitchell (1989), a relevant issue derived from cafeteria plans is the adverse selection that they encourage. Hence, cafeteria plans are very appealing, since they permit consumer choice. For example: employees whose children are about to need braces will pick dental insurance; those employees with serious illness in their families will opt for comprehensive health insurance. The premiums for these separate programs will be expensive compared to levels prevailing at firms where everyone must take all of the benefits offered, regardless of preference. Companies, according to their size, could also decide if offering this kind of benefits by their own or asking for a support from an external provider, obviously considering the costs that could rise from the choice of outsourcing.

4.3 HOW TO DEVELOP AN EMPLOYEE BENEFITS PLAN

4.3.1. Introduction to employee benefits plan

According to Sherman and Bohlander (1992), an optimum combination or mix of benefits should be developed into a package. This involves careful consideration of the various benefits that can be offered, the relative preference shown for each

benefit by management and employees, the estimated cost of each benefit and the total amount of money available for the entire benefits package.

The employee benefits plan, also known as welfare plan, is the structured set of actions designed and activated by a company, unilaterally or in the execution of second-level agreements or collective agreements, for the provision of sums, assets, works or services aimed at satisfying needs of social relevance or daily life in favour of employees or their families⁵⁵.

The characteristic that really differentiates a welfare plan from the several welfare initiatives, is its strategic planning, that allows to manage welfare instruments in both efficient and effective way, by following specific steps. As we will see, the definition of a welfare plan, always starts from an accurate analysis of workers' and company's needs, in order to find the best solution to meet everyone's requests and satisfy them. This represents the only way to use welfare plans as strategy to reach company's objectives by satisfying workers' requests, so that considering the sustained costs as essential investments for the company, not a simple waste.

There are many instruments through which a welfare plan could be implemented, flexible benefits, treated before, are one of those.

⁵⁵ Massagli E., Spattini S., Tiraboschi M., 2019 - "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

Moreover, when planning an employee benefits plan it's fundamental the involvement of workers, because many studies found out that involving workers in their rewards design, leads to positive consequence especially on performance. Caza and colleagues (2015) found that performance was increased by almost 40% compared with workers who had no choice. Other research showed that when there is a joint management–employee committee designing the rewards, rather than a management-imposed decision, employees are more likely to find the outcomes fair and more satisfying (Schwarz, 1989). In this event, they may respond more positively to the reward system.

In order to build a complete welfare plan, it's essential to follow specific stages, in a specific sequence⁵⁶. The construction of the plan could be compared to a real journey composed by different stages, that will be better explained in the next paragraphs:

1. preliminary evaluation;
2. classification and analysis of the company population;
3. planning of the employee benefits plan;
4. implementation of the employee benefits plan;
5. monitoring of the employee benefits plan

⁵⁶ Massagli E., Spattini S., Tiraboschi M., 2019 - "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

4.3.2 Preliminary evaluation

The very first step is to identify, the specific and practical interest that the company would reach by implementing a welfare plan⁵⁷. As we saw in the previous chapters, there are several reasons why a company decides to implement corporate welfare and in this stage is very important to identify them in order to meet company's objectives, so that planning it in the most strategic way, giving also the opportunity to the company to take advantages. This kind of accuracy at the very beginning, it's important also to avoid waste of money or other negative consequences due to a wrong objectives' analysis. According to Sherman and Bohlander (1992), the most frequent mistake that companies can make is related to the desire of enjoying fiscal advantages without considering measures that actually turn out functional to improve the internal organization of productive factors, also because taking fiscal advantages it's possible only if the plan has an effective social value.

The building of the plan, thus, starts with a careful examination of the company objectives and a preliminary assessment of the measures already present in the company, from previous internal audits, analysis of the company climate, results of monitoring, periodic evaluations on quality and work organization or even provisions contained in the national collective labour contract applied in the

⁵⁷ A. COLOMBO, M. BATTOCCHI, M. PAGANI, "Welfare aziendale e flexible benefit", EPC EDITORE, 2016

company. Together with the company's objectives, if there were ongoing measures, it is essential to figure it out and take it into account when defining the welfare plan⁵⁸.

The welfare delivery could be linked to results bonus or not; in the first case it's about their conversion into corporate welfare practices and it is known as productivity welfare; in the second case it's about additional resources for workers with respect to their remuneration and it is known as welfare on top. When we talk about welfare on top, we refer to fixed amount provided from the welfare plan, while the conversion of results bonus is a more variable part, depending on the achieved results. According to the type of welfare that a company wants to implement, the sources and the instruments that should be used, change, so during the preliminary analysis, it's also very important to define which type of welfare is needed⁵⁹.

Planning in a strategic way means transforming welfare from cost to investment that allows companies to reach good results in terms of workers' organization and wellness, that in turn increase the competitiveness of the company. The methods of financing corporate welfare depend just on its strategic objectives and they are

⁵⁸ A. COLOMBO, M. BATTOCCHI, M. PAGANI, "Welfare aziendale e flexible benefit", EPC EDITORE, 2016

⁵⁹ Massagli E., Spattini S., Tiraboschi M., 2019 - "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

various, only some of them concern specifically welfare of productivity, while most of them are linked to welfare on top⁶⁰.

To set up a welfare plan is not always necessary an official negotiation, because also this step depends on the type of welfare plan designed by the company. Hence, companies need a negotiation only in case of welfare of productivity or bargained welfare on top, that could be also not bargained. Regarding the negotiation, it could be specific, so that the main objective of the bargaining is the corporate welfare, or most often it is about a signing or renewal of corporate contracts.

4.3.3 Classification and analysis of company population

Since welfare plans are for workers, this is one of the most important steps, cause gives to the employer the opportunity to build a plan able to satisfy the actual workers' needs. If the plan is correctly built, it means that the strategic planning is respected, so that company is making the right investment and not only facing costs. "Customizing" a welfare plan on the basis of company population is the requirement to reach successful results for the company, cause implementing this kind of plan means dealing with people and people, that are playing an even more

⁶⁰ Massagli E., Spattini S., Tiraboschi M., 2019 - "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

important role inside companies, have many kinds of needs, depending on their own living conditions and their own characteristics.

In order to have a complete view of the company population, many survey tools could be used, that must be matched with the characteristics and the size of the company⁶¹. These tools are the following:

- preliminary analysis;
- questionnaire;
- focus group;
- direct contact or interview with workers

Obviously, depending on the size of the company, some tools are more relevant with respect to others, for example the direct contact or interview with workers becomes more effective than the collective feedback that comes from a focus group in small companies. In bigger companies, providers or consultants support the employer also in analyzing the company population, so that in this step, a collaboration between some business functions and external providers occurs. In a preliminary analysis all the data about workers are collected without their involvement and organized in seven different areas: general, identifying, family information, logistic, industrial relations, remuneration analysis and organizational and welfare/wellness analysis.

⁶¹ Massagli E., Spattini S., Tiraboschi M., 2019 - "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

The basic prerequisite for providing employee benefits management is participation of the employees in the process of their choice. The result is an understanding to provided employee benefits and perhaps making them more satisfaction with these benefits (Milkovich, Boudreau, 1993).

The participation of workers starts with a questionnaire that is aimed to point out which kind of services are requested by the workers and their needs concerning work-life balance. The structure and the complexity of the questionnaire must be calibrated on the workers profiles and workers' level of education, however it's better to simplify it as much as possible.

Moreover, before a new benefit is introduced, the need for it should first be determined through consultation with employees. Opinion survey are also used to obtain employee input. Having employees participate in designing benefits programs helps to ensure that management is moving in the direction of satisfying employee wants. It also provides a basis for exchanging information about any problems associated with the benefits (Sherman and Bohlander, 1992).

The questionnaire could be considered effective if it reflects the actual needs of workers and not their desires in such a way that welfare is perceived not as a gift but as an opportunity to support working conditions inside the company in a way that is functional also for organizational and productive needs of the company itself.

Another tool that is useful to reach enough information about workers and their needs is organizing focus group, that are meetings during which workers can express their requests and discuss about several topic, especially in this case corporate welfare. Focus groups should follow specific rules in terms of timing, roles and steps in order to be effective and efficient.

According to what we said before, if the size of the company allows it, making some individual interview to the workers, could be one of the most effective method to gather information about their needs and engage them totally.

4.3.4 Planning of the employee benefits plan

The planning activity represents the most important part in building a welfare plan. Precisely for this reason, the contribution of the trade union could represent an additional value and strategic decision to preserve workers with respect to employers' initiatives that could appear opportunistic at the very beginning⁶². The planning step is composed by several stages in its turn. Indeed, after collecting and systemizing all the information gathered in the previous steps, the following choices must be taken:

- welfare typology;
- sources;

⁶² Massagli E., Spattini S., Tiraboschi M., 2019 - "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

- measures;
- recipients;
- residue management;
- administrative and operative management

Regarding the welfare typology, two different typologies should be chosen. The first one is productivity welfare and it consists of the voluntary choice by the worker of converting a result bonus to welfare measures, when this option is provided by a collective bargaining agreement. The other typology is the one called welfare on top and it consists in measures that are not linked to certain business results but they regard additional resources than the ones established for the workers' remuneration⁶³.

During the First Industrial Revolution the welfare provided inside the companies, had almost exclusively voluntary and unilateral, originated by an “act of generosity” of the employer. The Italian stability law of 2016, had overturned this aspect by incrementing the role of company regulation and/or collective bargaining. So that, the welfare provided inside the companies, now, could be originated by several sources: act of liberality, company regulation, corporate, territorial, national and interconfederal contract or agreement. According to the

⁶³ Massagli E., Spattini S., Tiraboschi M., 2019 - “Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori”, ADAPT

source from which welfare is originated, we differentiate voluntary welfare from mandatory welfare and unilateral from contractual welfare.

With regard to the welfare measures, the plan must predict an offer of welfare goods and services. In this step, all the information gathered in the previous phases must be considered, in order to define the correct measures. The choice of a more restrictive offer or a more freedom for the workers to decide their own basket of goods, is at the discretion of the company. However, it's important to highlight that not any kind of goods or services have the same relevance or impact in terms of corporate welfare. More specifically, there are some categories that reflect more the purpose of corporate welfare, according to the law, that are: health protection, maternity protection, injury protection, invalidity protection, unemployment protection and retirement. These are the measures that most are in line with the concept of welfare, because related to working relationships and predicted by the law. Then, there are some measures that are less nearing to the welfare concept but considered "socially beneficial", among them there are: family protection, healthcare, instruction and education. Other measures, more related to the daily life of the workers, that could be considered a granting of the employer, are even more distant from the recognized welfare measures. Conversely, there are benefits that don't have any social or collective content, that only constitute a purely economic advantage or a status, it is the case of what are

called fringe benefits⁶⁴. According to Sherman and Bohlander, not until the 1920s were employee benefits offered by more than just a few employers. Because these benefits were supplemental to the paycheck and were of minor value, they were referred to initially as fringe benefits.

The benefits, to be considered as such, must be aimed to improve the workers' living conditions and quality by strengthening also their loyalty to the company, their participation and their engagement inside the company. What determines the nature of the benefit, among other things, are the subjects that primarily take advantage from the benefit. In the case of fringe benefits, according to which goods and services needed to carry on the working activity are offered, the main subject taking advantage by those benefits is the employer cause by providing the worker of all the instruments needed to work, wants to reach a purely economic purpose, in the interest of the company.

The definition of recipients must take into account the special requirement of workers' generality, in order to be considered welfare and not employee income. It could be also intended for workers' homogeneous categories. It's possible to define the kind of benefits according to the category, but this could negatively affect the cohesion of company population.

⁶⁴ Fringe benefits are not part of corporate welfare, because they are considered part of the remuneration and they are regulated by the individual contract between the employer and employee. The most common fringe benefits are: notebook, tablet, mobile phone, rental property, meal vouchers and car for private use, too. – Massagli E., Spattini S., Tiraboschi M., 2019 - "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

The part of welfare value not used by the workers at the end of the welfare plan cycle, is called residues. In this case, there are several ways to manage them and they depend strongly on the typology of the welfare that company implements. The residues management in case of productivity welfare is easier, because the part of bonus results that the workers didn't convert, will be given in monetary form as part of the worker's remuneration, so that is not possible for the company regaining possession⁶⁵.

Contrary, the welfare on top measures are not an element of worker's remuneration, because they have only welfare origin, it means that is not possible to give the residues in monetary form. This is the main reason why when defining a welfare plan, it's also important to predict the solutions in case of residues. These solutions are the following: destination for individual social security or assistance, destination for forms of collective welfare, extinction of the residue, portability to the following year even if it is considered the less suggested solution. The welfare plan must also include the solutions with regard to the residual welfare of workers terminated from the employment relationship, but for this category there are different ways of management.

The administrative and operative management could be in the hands of the company itself, the case of internal management or in the hands of a provider, the

⁶⁵ Massagli E., Spattini S., Tiraboschi M., 2019 - "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

case of external management. The main considerations when deciding the type of management are, surely, linked to the structure and the complexity of the welfare plan that will be implemented⁶⁶. When the first option is evaluating, there are some factors to analyze: the actual human resources and other offices' workload affected by an internal management, the involvement of external consultants, the identification of a potential network of services at territorial level, able to provide some discounts on the offer of goods and services, the need of informatics platform that facilitates the provision of welfare measures to the workers.

Due to the development of corporate welfare and the measures that a company is even more able to offer to its workers, actually this option is becoming the less used one because the kind of welfare plan that is handled by the company itself, through an internal management, is generally the so called welfare of refunding.

The second option consists in receiving the support of an external provider in order to have a smaller workload for the company. It is the suggested choice in case of a more structured and complex welfare plan. The providers are private individuals specialised in offering to companies corporate welfare solutions, supporting them during the welfare plan definition and implementation. The services that providers make available for the companies are the following:

- consultancy during the planning step;

⁶⁶ Massagli E., Spattini S., Tiraboschi M., 2019 - "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

- provision of the informatics platform and the training for its correct usage;
- legal, fiscal and administrative support in implementation and monitoring steps;
- identification or construction of a commercial network of several dispenser that offer services at territorial level.

As said before, the choice of a provider's support allows the firm to have less workload and spend time for other functions inside the firm, this is the reason why is becoming even more the preferred option for companies. A provider could also provide training courses at the very beginning and assist the company during the preliminary analysis. Choosing a provider doesn't mean that automatically all the management is in its hands, but the part and the steps actually outsourced is at the discretion of the company. The most required support is linked to the managerial part of the digital platform. This platform should be as much accessible as possible by mobile devices and easily understandable for all the workers that will use it. Not only the amount and the kind of services that a company offers is important because, regarding the digital platform, a crucial role is played by the layout that must clearly represent the business value and purposes⁶⁷.

The most important factor that affects the choice of external welfare plan management is the cost. Hence, there are several costs that the company must face

⁶⁷ A. COLOMBO, M. BATTOCCHI, M. PAGANI, "Welfare aziendale e flexible benefit", EPC EDITORE, 2016

in case of recouring to a provider and they obviously will affect economically the company's situation. First of all, there is a cost for the informatic platform and the plan setup, then the management of the platform will give rise to a fixed amount that should be paid periodically; a percentage share is calculated on the transaction volume or the volume managed by the platform and some additional costs linked to training, meeting, fiscal consultancy and communication. In addition to costs, there are further aspects that must be taken into account when evaluating the provider option: the amount of fee on volume management that generally decrease when the volume increases; the fixed fee that, contrary to the previous fee, generally increase with the increase of company's size; the possibility to have a convention with new suppliers; the request of the amount of services immobilization; the quality of offered services. Moreover than the simple quality of services, companies take care to the accredited network to which its workers have the access. The ability of a provider to involve other local actors with certain projects and purposes that have positive consequences not only for the company itself but also for the territory, is another very evaluated characteristic.

What influences the choice of a company is the level of flexibility of the suggested plan by a provider⁶⁸. Companies, indeed, prefer a provider that takes

⁶⁸ Massagli E., Spattini S., Tiraboschi M., 2019 - "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

care to their specificity and that is able to adapt the plan to them. Obviously, for bigger companies is easier being supported by a provider, because their resources are enough to face all the included costs and the most common method adopted by a big company to choose a provider is publishing an invitation to tender.

4.3.5 Implementation of the employee benefits plan

The implementation step involves different business functions and both the efficacy and the results of the plan strongly depend on the ability of these functions to work together synergistically. The different functions could be involved not necessary all together but also in different steps, as explained below⁶⁹.

The human resources manager, business management and executive board share the plan with their collaborators and they have a guideline function and they promote the idea.

If an organization wants to employee benefits have a positive impact on staff motivation, satisfaction and stability, should be wondering whether they were employees with employee benefits offered sufficiently familiar. Also the fact that employees understand the various components of employee benefits and

⁶⁹ Massagli E., Spattini S., Tiraboschi M., 2019 - "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

understand their value is the main reason why they are unhappy with them (Duda, 2011).

The human resources office, instead, together with pay-roll functions, are involved in accounting the benefits offered or the workers on the payroll, they are also involved in the internal management of the welfare plan.

The industrial relationships area is responsible for actively collaborating with the trade unions both in the case of contractual welfare and the unilateral welfare.

Supply purchasing department or administration are in charge of benefit management and accountability in case of internal management; or contacting and selecting the right provider in case of external management.

The finance and fiscal areas deal with economic resources needed to implement the welfare plan, they also evaluate its sustainability and its impact on the company's balance sheet. They also take care to insert fiscal costs needed for the financing.

The communication area internally plans the dissemination actions and any new communication tools for promotion and for information on the plan, to employees. In case of the improvement of employer branding is among the objectives to reach through the welfare plan that will be implemented, also an

external communication linked to the plan, must be defined and strategically planned by this area⁷⁰.

The true measure of a successful benefits program is the degree of trust, understanding and appreciation it earn from the employees. In communicating with employee about benefits, employers should clarify information about complicated insurance and pension plans that there will be no misunderstanding about what the plans will and will not provide (Sherman and Bohlander, 1992).

The informatic area contribution is needed when a digital platform is required for the welfare plan management.

The responsible of the data protection concerning the workers' privacy and the treatment of their data for those workers interested in the welfare plan.

Medium and big companies prefer to constitute a specific office that deals with all the welfare plan practices: it means a welfare office or a dedicated figure placed in the human resources management⁷¹. New training courses at university level or professional levels, are aimed to create new professionals called welfare manager that help the companies, specially the human resources management in supporting them in the field of welfare and smart working. The main functions and activities in which the welfare manager is involved are:

⁷⁰ Massagli E., Spattini S., Tiraboschi M., 2019 - "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

⁷¹ Massagli E., Spattini S., Tiraboschi M., 2019 - "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

- collaboration and coordination of the planning, development, implementation of the welfare plan and works on its improvement;
- coordination and management the internal analysis on the company population;
- planning other activities that are not correlated only to the welfare plan but concern the company wellness, organization, smart working and work health promotion;
- acting as connection between the different business functions in order to encourage a synergic collaboration among them;
- serving as connection between the workers, informing them about the available measures, through the so called welfare teller;
- interfacing with communication area for the coherent dissemination of the project;
- monitoring the plan by also reporting it systematically;
- building, extending and improving the network of services' providers partners;
- acting as connection with the possible provider that provides the company with welfare services;
- planning corporate welfare actions integrated with the territory;
- representing the company in the external environment regarding the field of corporate welfare.

After having specified the business functions involved in the implementation of the welfare plan, it's important to define the mode of delivery. As said in the next paragraphs, it is possible to choose between two different ways: providing specific goods and services to the workers or providing a figurative budget to the workers that can choose which kind of goods and services insert in his or her own welfare basket, often by using a digital platform that allows the worker to access and act almost autonomously, the before mentioned cafeteria system.

According to the typology of goods and services that are offered, the company chooses the way of provision that could be: indirect provision or direct provision. The indirect provision consists mainly in a reimbursement by the employer to workers, who can directly buy the goods and services by the provider. It is considered indirect because there is an intermediary between the company and the provider among which an economic relationship exists, that is indeed the worker.

The direct provision is the case in which the subject that pays for goods and services are directly the company and it is the same subject that provides the bought goods and services to workers, but it could avail of other commissioned subjects.

Together with the employees, further recipients could be their families⁷², thanks to some welfare practices that predict also benefits for them.

The implementation of a welfare plan is also about dealing with privacy protection rules. It requires, thus, managing a flow of personal information that sometimes could be also sensitive, about the workers and their families that should deal with the right data processing. The very first thing to do is identifying the type of data required and treated for welfare purposes, so that it's possible to know the obligations about their treatment in order to respect it accurately. According to the law, there are many principles that must be respected, some of them: principles of lawfulness, data protection by design and data protection by default. In conclusion, people or offices that collect the documentation required for goods and services' provision, on behalf of the company, must deal with personal and sensitive information of workers. Hence, they must well define these information and treat them in accordance with the rules. In case of external management, so that in presence of a provider, is necessary that also the provider guarantee the correct processing data of workers, since it has a bigger amount of information than the one possessed by the company⁷³.

⁷² The concept of families is defined by the Italian law (art.12 TUIR)

⁷³ Massagli E., Spattini S., Tiraboschi M., 2019 - "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

Another essential part of the implementation step is the definition of the communication plan, that allows the company to share the welfare plan with its employees. It's important to choose the right tools to communicate a welfare plan to workers and accurately schedule all the activities to realize. There exist a lot of different tools possible to use for an effective internal communication, some examples are: mailing list, newsletter, reserved access area on a server or web site or dedicated platform, blog or corporate newspaper, social network, communications attached to the payrolls, bulletin boards or informative material inside the company, union trade meeting, business meeting.

The role of union trade could be essential also in this phase, giving useful suggestions to create an effective and customized communicative message. It's very important creating a shared corporate culture on welfare, in order to fill the cultural gap that is often faced in this field.

4.3.6 Monitoring of the employee benefits plan

Monitoring the welfare plan during its implementation allows the company to adjust it in case of errors made in the planning phase and also to recalibrate it on the basis of new workers' needs or the necessity of a more coherence of the

welfare plan with the business objectives (Sherman and Bohlander, 1992).

Monitoring activity is realized through other stages, that are the following:

1. the detection on the use of the provided benefits and welfare measures;
2. the monitoring on the welfare plan coherence with the predetermined business objectives and its successful for the workers;
3. the ongoing adjustment of the welfare plan, integrating also new services;
4. the drafting of a final report

Monitoring, contrary than the other phases, is defined more as a process, because it develops together with the implementation. There are two different kind of monitoring⁷⁴:

- ✓ management control;
- ✓ performance monitoring

The management control concerns the proper functioning of the welfare plan at procedural and organizational level, how the involved business structures operate, how the plan is perceived by the workers and which are the external news that could require an adjustment. This part of monitoring include some points, like: control on the functioning and the use of the services and predicted measures;

⁷⁴ Massagli E., Spattini S., Tiraboschi M., 2019 - "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

verification and evaluation of the communication activities; general verification and evaluation on the work of the different business functions on the project; awareness on the normative and market news or changes.

Contrary, the performance monitoring is aimed to check and evaluate the efficacy and the efficiency of the welfare plan. It includes, thus: the measurement of the impact on the employees' satisfaction level about the adopted measures; evaluation of the welfare plan's impact on the other predetermined business objectives in order to control its efficacy and efficiency. The choice of the aspects that will be monitored is essential, so that defining the KPI that means Key Performance Indicators on these factors is extremely important⁷⁵. Some of the most common KPI are: productivity; absenteeism, delay and requested permissions reduction, turnover rate reduction that means a better business retention; attractiveness and business recruiting capability improvement; evaluation of the social responsibility of the company.

The configuration of these KPI must be specific for the company and it is not necessary that they coincide with economic variables, because they could also be variable evaluable through questionnaires to workers or focus groups.

Together with the definition of the KPI, it's important to set also the timing of monitoring. The monitoring intervals must take into account the overall duration

⁷⁵ Massagli E., Spattini S., Tiraboschi M., 2019 - "Fare welfare in azienda – Guida pratica per imprese, consulenti, sindacalisti, operatori", ADAPT

foreseen by the plan. Contrary, is constantly require to monitor the possible changes in terms of law, norms and new opportunities for services at market level⁷⁶.

⁷⁶ A. COLOMBO, M. BATTOCCHI, M. PAGANI, "Welfare aziendale e flexible benefit", EPC EDITORE, 2016

CONCLUSIONS

As stated at the beginning, this thesis is aimed at analysing, thanks to the support of economic literature, the actual consequences of different types of remuneration offered by firms, both in terms of motivation, performance and satisfaction of employees and in terms of the achievement of firm's objectives. Human capital is considered the principal resource for a company and its correct management lies at the root of the successful operation of the company.

Hence, as emerges from the first chapter, recognizing the value of human capital is one of the secrets for the company's success. In order to do this, strategic human resources management adopts different strategies aimed at attracting, retaining, motivating employees. The main aspects that can support companies in such challenges and, thus, that companies must deal with, are: performance evaluation, employer branding, labour cost and remuneration policy, flexibility and work-life balance.

Since, the working environment has been subjected to several changes that in the first chapter are differentiated in external and internal changes, these aspects have become increasingly difficult to manage, especially in terms of working conditions, since workers are even more attracted by workplaces able to give them more flexibility and the right work-life balance. This is the reason why is fundamental for the company to adopt a strategic approach, by studying both the

company's and workers' needs in order to match them in the best way as possible and achieve the best results. Maslow gives an important contribution in the recognition of employees' needs, thus it's possible to summarize them in the Maslow's hierarchy of needs. It is useful for employers especially in the field of motivation, because it shows the importance that each kind of need has in the worker's life.

Remuneration, as already stated, has always been the central element of the relationship between the firm and the employee, because on one side it's the main reason why an employee is willing to work and on the other side it represents one of the most relevant costs for the firm. Going deeper into the topic of labour cost, it is composed by several part because the compensation may acquire different forms. Since variable pay is based mainly on output, they lead to two principal advantages, contrary from fixed pay: it induces the good workers to stay in the firm and it motivates workers to put forth effort instead of merely showing up to work. Furthermore, offering hybrid schemes that means offering a variable part of compensation in addition to a minimum fixed wage, that grants decent living conditions to the workers, may be an important motivator for the workers in order to achieve better results. However, to make this strategy successful is necessary that the relationship between employer and employees is based on honesty and confidence, in order to avoid the ratchet effect. Moreover, output-based pay are more difficult to define because the factors that affect them, such as quality of

output and the cost of output measure are more complex with respect to the factors concerning an input-based pay that usually refer to working hours.

As explained in chapter two, compensation not only includes monetary amounts, because some companies together with monetary compensation also offer non-monetary compensation, also called benefits. Providing certain benefits to employees instead of additional monetary amounts presents some advantages for companies, especially related to the cost of the benefits that is lower if the companies directly purchase them and another advantage is related to the employees' behaviour and quality of work, since giving compensation to employees in the form of benefits can change these two aspects positively.

The characteristics of the workers can affect their preference about monetary compensation and non-monetary compensation and it's important for the company considering this because the kind of compensation that firms decide to offer represents also a strategy to attract the right type of worker, who responds to those specific needs.

Benefits are considered an important part of compensation and one set of rationales for employer-provided benefits involves transactions costs and economies of scale, tax advantages, administrative savings, market power and reducing adverse selection problems. Moreover they are able to increase the employees' engagement and they favour a positive work-life balance, strongly asked by employees. Employer-provided benefits, as said before, also positively

affect employee behaviour by providing incentives not to quit and to avoid being fired; and promoting gift-exchange effects. In order to determine the successful benefit programs, the firm must know the amount that the benefit is worth to employees and it depends especially on the preferences of workers between cash wages and benefits. Hence, larger employers take more advantage from the provision of benefits, with respect to smaller ones, so that they tend to offer richer packages, that consequently are more appreciated by employees. Discretionary and non-discretionary benefits can also impact differently, especially on employees' perspective. Actually, discretionary benefits have an indirect effect on performance, cause they motivate employees to perform better, while benefits that are mandated by regulation create less organizational loyalty and they also can create employee rights or entitlements that are not able to really motivate them.

The implementation of supplementary reward systems is now increasing at European level as can be seen in the empirical research conducted by Eurofound. However, companies must overcome certain barriers to introduction in order to access to this kind of decisions, such as the economic shape of the company that should be good enough or the legal challenges of discretionary payment schemes and bonus systems⁷⁷. Furthermore the available resources of a company and its size also may affect the possibility to offer supplementary reward systems to

⁷⁷ UK report for the Office of Manpower Economics

employees, indeed larger employers are more likely to offer supplementary reward systems, due to their complex functioning and costs.

Even if there still be various differences across countries in terms of supplementary reward systems' implementation, all of them seem to start offering alternative systems to remunerate employees, taking several kind of advantages from it. Differences may be verified among employers, actually larger companies or even branches of foreign capital and multinational that operate in private sectors seem to use more these systems, but also the market sector in which employers operate affects the possibility to offer different kind of rewards.

The advantages for employers are not measured only in terms of tax treatment, but also employer branding since it requires a lot of responsibility in choosing the right type of remuneration.

Furthermore the State's intervention represents an important support in certain countries, through several forms. Contrary it is absent in many others that, thus, find some difficulties in the implementation of supplementary reward systems, especially because there isn't a significant regulation that gives some incentives to companies in both terms of employees' and employers' taxation.

From the perspective of employees, by analysing the results of empirical researches⁷⁸ is found out that men prefer supplementary reward systems more

⁷⁸ Eurofound (2016), Changes in remuneration and reward systems, Publications Office of the European Union, Luxembourg

than women and that in some cases also the level of occupation may affect the opportunity to receive this supplementary kind of remuneration, indeed top-level workers are more likely to receive them than lower-level workers. In addition to these factors, another characteristics that emerge by the research is the age of employees that prefer supplementary reward systems, that are mostly middle-aged employees, more than younger and older employees. Employees receive relevant advantages by supplementary reward systems, especially in terms of taxes they usually would have to pay on their income.

These systems have also positive impact on the motivation of employees who, feeling more involved inside the firm. By the way, only if the firm acts fairly and clearly, the employee will be more loyal to the same firm. However, it is not clear that these forms of remuneration can incentivise all types of workers (Hammermann, 2013), it depends, thus, on the type of workers and the level of motivation they have. Also the level of fixed salary affects the degree of appreciation of workers, indeed, especially when fixed wages are low, employees do not see supplementary rewards as an advantage.

After demonstrating, also with the economic literature's support, the effectiveness of supplementary reward systems and the positive consequences they bring to the relationship between employer and employee, it's interesting to understand how cafeteria benefits plans, a practice that starts to be widespread also across Italian firms, work and what their implementation actually implies.

By analyzing the consequences of providing cafeteria benefits plans – which allow employees to tailor their benefits packages depending on their own tastes – according to the economic literature, they capture some but not all of the advantages of more-directly-provided benefits in addition to having the advantage that they can be tailored to individual tastes.

Therefore, even if most of the advantages still be the same explained for supplementary reward system, cafeteria plans present some criticalities. More specifically, economies of scale may be reduced somewhat by virtue of employees choosing to allocate benefit entitlements across various benefit categories or, within a particular category, among various providers; they may also exacerbate adverse selection problems by giving employees the ability to allocate benefit budgets into particular categories based on private information. Moreover, due to the fact that employees are free to choose the benefit they prefer, the consequence related to self-selection may work in ways that are not to the firm's advantage.

By the way, flexible benefits or cafeteria plans seem to be actually used across country, also in Italy. Empirical researches from Italian research studies such as Welfare Index PMI or the ones conducted by ADAPT University – both aimed at analyzing the develop of employee benefits provision inside firms – show that flexible benefits are offered in many companies and that both employers and employees appreciate them. At the same time, many other companies state that the implementation of these plan represents an objective that they would like to

achieve as soon as possible. According to Eurofound⁷⁹, the main reason why this contradiction is verified is that given the salary freezes applied by many companies, variable remuneration and social benefits are a convenient tool for increasing salaries, particularly in crisis times when companies do not want to take the risk of increasing the fixed part of the salary.

After analyzing all the advantages and issues of cafeteria plans, it's important to use a strategic approach in designing an employee benefits plan, in order to avoid waste of time and especially waste of money or general resources.

Looking at the future, it is likely that the use and presence of supplementary employee reward systems will increase as the economy recovers, particularly in the private sector. Employers have a growing need for more flexibility, together with a need to increase their attractiveness and differentiation, especially in the context of an ageing population, shortages of professionals, fewer potential workers and a requirement for higher skills or qualifications. Among employees, there is also an increasing interest in supplementary pay systems on top of wages, especially among highly skilled and highly qualified workers. However, it is as yet unclear whether these forms of payment will also be welcomed by other groups of workers and their representatives.

⁷⁹Eurofound (2016), Changes in remuneration and reward systems, Publications Office of the European Union, Luxembourg

The creation of networks, as explained in the very last part of the thesis, could represent an important support for those companies that are not able to enjoy economies of scale's opportunity, that makes the cafeteria plans and included services easier to implement. These networks need a huge presence of entrepreneurial associations, so that it could be very useful increasing the involvement of these associations or social partners in general. For instance, in Italy, this practice starts to grow and it is subjected to many studies in order to analyse their effectiveness⁸⁰, also because particular regulation is required in order to carry on the cooperation inside these companies' networks.

⁸⁰ Arletti L., *"Dal welfare aziendale al welfare territoriale. Fare rete tra imprese per un nuovo modello di welfare"*, 2018

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LIST OF FIGURES AND TABLES

Figure I.1 – Maslow’s hierarchy of needs.....	13
Figure I.2 – Indifference Curves of Chess Players and Windsurfers.....	36
Figure II.2 – Employee preferences: Benefits versus Wages.....	45
Figure III.1 – Use of variable pay in EU Member States, 2013.....	56
Figure III.2 – Structure of labour cost as a percentage of total labour costs, EU, 2012.....	61

