



The Economic Valorisation of Skills in Company-level Collective Bargaining

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The proposition of this paper is that company-level collective bargaining plays a key role in assessing workers' skills and linking them to pay. There is consensus in economic literature that compensation systems based on employees' competences have a positive impact on companies' growth, workers' flexibility (Mitra, Gupta, and Shaw, 2011) and competitiveness (Gupta, Ledford, Jenkins, and Doty, 1992; Lawler, 1994; Acocella and Leoni, 2010). Despite the scarcity of empirical studies, there is some evidence that skill-based pay systems (from now on SBP) increase productivity, bring to a reduction of rejects, and decrease labor costs (Murray and Gerhart, 1998). Moreover, research show that the more the system to assess employees' individual performance is shared and transparent, the more it is effective in terms of incentivizing labour quality and productivity (Milgrom and Roberts, 1992; De Silva, 1998; Leoni, Tiraboschi, and Valietti, 1999). This is because participation and transparency affect workers' perception of organizational fairness positively, both from a procedural and distributive point of view (Greenberg, 1986; Cropanzano and Greenberg, 1997).

In a research presented at the 11th European ILERA Congress¹ we have explored how and why trade unions and company-level collective bargaining contribute to the regulatory quality of SBP plans, by setting-up and implementing the procedures to assess workers' skills and to link them to pay. To answer these questions, we have considered all the determinants that, according to scientific literature, are functional to guarantee the success of such pay schemes in order to define an ideal-type of SBP system and its fundamental peculiarities. From an institutional and organizational point of view, effectiveness of pay systems depends on the following characteristics: 1) transparent appraisal criteria and procedures; 2) assessment is built on several parameters, which are able to measure all the variables influencing the employees' behavior; 3) direct contact with the supervisor and feedback procedures provision.

Our unit of analysis are three Italian-based metal-engineering companies in which management and unions' representatives negotiated a system for the assessment and the economic recognition of workers' competences, i.e. Tesmec, TenarisDalmine, and Manfrotto. We have conducted a descriptive comparison of the three analyzed case studies, underlining their similarities and differences, their functioning mechanisms, and the role of trade unions in the setting up and implementation of skill-based pay plans. Secondly, we have analysed the three SBP systems in relation to the ideal-type of skill-based pay model.

Tesmec

⁽¹⁾ This article summarises the results of the paper "The Economic Valorisation of Skills in Company-level Collective Bargaining", by D. Mosca and P. Tomassetti, presented at the 11th European ILERA Congress (Milan, 8-10 September 2016).

The evaluation of the employees takes place annually and it is made by the head of the area belonging to the worker, with the support of the Human Resources office. The evaluation board is shared and contractually agreed between management and employees' representatives. The skills assessment is based on agreed appraisal parameters which are divided into two macro-areas (flexibility and distinctive elements of the performance), further divided into eight evaluation factors with different weights. Each parameter and evaluation factor (skills transmission; multifunctionality; operational flexibility; operational autonomy; interpersonal skills; team working; compliance and safety; quality) is contractually defined and explained. Management and workers' representatives verify the general functioning of such systems every year. As far as individual assessment is concerned, in cases of doubt on the evaluation procedure or suspicions of unfair judgement, the worker is entitled to request the assistance of an employees' representative and ask for a clarification to the Human Resources office.

TenarisDalmine

The SBP scheme is composed of two professionalism areas: required professionalism and expressed professionalism. From this point of view, employees are distributed in more bands on the basis of the required professionalism level, and then split further into five bands on the basis of the expressed professionalism level (minimum; lower-medium; medium; upper-medium; maximum). The evaluation board concerning expressed professionalism is shared and contractually agreed among management and employee representatives. It includes a total of twenty-eight working behaviors, grouped under the mentioned indicators (information; results; decisional autonomy; interpersonal skills; knowledge; safety/versatility/multifunctionality), where each working behavior has a different weight in relation to the precise role of the worker. In the final step of the evaluation process a colloquy between evaluators and evaluated is called for the final report. A special joint committee must verify the validity of the appraisal process, deepening and settling eventual dissimilarities. The worker, in particular, can turn to such joint committee in order to get a clarification on his final assessment.

Manfrotto

The assessment parameters are divided into two groups. The first parameters' group (named "Smart") is not formalized because it is composed of the individual objectives established in January or February directly between the worker and the supervisor. Instead, the second group consists of eight pre-established "Behavioral Skills": innovation; service orientation; leadership; quality of work; result orientation and speed of execution; collaboration; commercial sense; strategic view. The definition of each of these parameters is reported on a specific manual and is communicated to both evaluated and evaluators. Each parameter has a different weight according to the company department (Marketing and Sales; Finance, HR and IT; Operations, Industrial, R&D) and to the job level (Manager; Professional; Junior or New entry). During the year an intermediate step is carried out: employees' behaviors and competences are observed, and a colloquy is held in July in order to give feedback to the worker and, if necessary, to review the individual objectives.

The research shows that:

- 1) In all the cases appraisal aspects are contractually defined and communicable to employees, primarily through the direct superior (Tescmec and TenarisDalmine) or specific manuals provided to workers (Manfrotto). Moreover, in all three cases appraisal criteria, grades and parameters are transparent and agreed among trade unions and management, as they are contractually specified and each parameter is identified by a shared description focused on the aspects under evaluation.
- 2) Evaluation parameters consist of a total set of eight (Tescmec and Manfrotto) or twenty-eight working behaviors (TenarisDalmine). Thus, assessments are built on several parameters, that is to say different competences and skills agreed between management and employees' representatives. Moreover, each parameter and evaluation grade has a weight in relation to the company department and the job level (Manfrotto), in relation to the professional category of the worker (TenarisDalmine), or in relation to the agreed importance of the measured element (Tescmec).

Effectively, in all three cases the evaluation procedure is contractually agreed and carried out based on different weights and multipliers, not only emphasizing the most relevant skills, but also highlighting the most interesting components in relation to the job position.

3) In all case studies the final evaluation is carried out by the direct superior of the worker, who is always notified in advance, sometimes with the support of the Human Resources office (Tesmec). In addition to this, in all case studies opportunities for discussion and comparison between the supervisor and the employee, that configure a two-way communication, are provided. These steps can take place informally, given the lack of detailed and shared mechanism (Tesmec and TenarisDalmine), or within a predetermined and articulated process, by providing an intermediate meeting between the employee and his supervisor (Manfrotto).

The three analysed case studies show that trade unions and collective bargaining play a key role in determining the regulatory quality of the pay schemes linked to the assessment and valorisation of workers' competences. All the factors characterizing the ideal-type model developed have been controlled. In particular, criteria are communicable to workers in advance through specific material or by the direct evaluators, as consequently both parties become aware of parameters and evaluated working behavior. Furthermore employees can better understand how the SBP scheme works and how pay rises are tied to tests on skill levels; the analysed systems take into account several dimensions of the worker's performance, enhancing the most important elements and variables of the evaluated working behavior through a plan of different weights; feedback procedures are provided and configure a two-way communication, and the final evaluation is carried out by the direct superior of the worker. Through company-level collective bargaining the evaluation mechanisms become part of the contractual clauses, giving rise to an obligation that makes the model transparent and legitimates trade unions to take part in the appraisal system management. From this point of view, trade unions hold a considerable role, as they are legitimated to ensure the correct implementation and functioning of the pay scheme.

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