

Both employees and companies benefit from flexible wage systems

August 3 2013

Research from the University of Copenhagen has revealed the effects of a decade of decentralised wage negotiations in the private sector. In an article in the *Journal of Labor Economics*, researchers conclude that wages have risen for all employees and that companies are now better able to retain key personnel.

"Average wages rise when employees and managers negotiate on an individual basis, without a collective-bargaining agreement dictating fixed rates for all," explains Jakob Roland Munch, professor of economics at the University of Copenhagen.

For the first time, this trend has been followed over a ten-year period – and results indicate that the effect on wages has been positive. The research shows that the average increase for Danes employed in the [private sector](#) and subject to decentralised wage bargaining is 5% higher than for employees whose wages are calculated on the basis of [parameters](#) such as seniority.

"The examples we have unearthed in the private sector show clearly that the average wage rises under decentralised bargaining," says Professor Munch. "We didn't expect such a large difference. Even those at the bottom of the hierarchy win under a [flexible system](#). Many other countries in Europe organise wage negotiations in a similar manner, so they may be interested in and inspired by our results." The other two researchers involved in the project are Professor Christian Møller Dahl of the University of Southern Denmark, and Assistant Professor Daniel

le Maire, also from the University of Copenhagen.

Flexible wage systems reward abilities

Among those who benefit the most are those with a long-term [higher education](#) and long-term work experience. For this group, wages have risen by 7%, while those with shorter education and little [work experience](#) have seen their [wages](#) rise by 3%.

A flexible wage system affords better opportunities to reward employees according to their abilities, which means that companies can adapt more easily to market demand.

"Globalisation and technological progress affect companies differently and create a need for restructuring. For example, flexible wage systems make it easier for companies facing growing demand to retain key employees, while [employees](#) under threat of outsourcing can end up keeping their jobs at a lower wage," Munch continues.

"One fairly obvious interpretation of the positive effect revealed by our study is that a decentralised system means companies are better placed to cope with changes to market conditions and are therefore more productive.

Our research concerns the private sector, but the principles are transferrable to other sectors," he stresses.

"Our research sends a signal that decentralisation actually makes it possible to identify areas in which more flexible wage bargaining makes units function more efficiently. It is easy to envisage the same effects in parts of the public sector, where wage bargaining is currently relatively centralised," the professor concludes.

Provided by University of Copenhagen

Citation: Both employees and companies benefit from flexible wage systems (2013, August 3)
retrieved 25 April 2024 from

<https://phys.org/news/2013-08-employees-companies-benefit-flexible-wage.html>

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