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The Wage of Employee: the Difference between State Enterprise and non - State Enterprise in Viet Nam by Perspective of Human Resource Management

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ABSTRACT

The aim of this paper is study the difference of wage system of employee between State enterprise and non - State enterprise sector. Through data analysis, we concluded that the public sector wage system still formalism, grade and based primarily on seniority. Whereas the private sector wage system closely held and based primarily on the efficiency of labour. In the same qualification, income of employees in the private sector will be higher than the public sector. Because wage was considered one of the instruments to be administrators use to promote working efficiency of employees. Therefore, we study the difference between two wage systems base on perspective Human Resource Management (HRM) to analyze how that these differences affects to working efficiency, give opinion and evaluation. Huong Giang's travel company in Ho Chi Minh City was selected which is the non - State enterprise sector and State enterprise sector was investigated based on data overview of Viet Nam.

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INTRODUCTION

Wage is defined as an amount payment under the contract of recruiters for employees. The payment basically seen as paying for a particular commodity named "labor services" which labour users have purchased. The views on wages also vary depending on conditions, levels of socio-economic development and human perception. The theory of wage is formed very early (Hicks, 1932) and gradually change over each period of development. Wages are always a matter of social concerns by socio-economic significant implications of its. For employees, the wages always are the most important source of income to help them ensure their lives and families. For enterprises, the wages are one part of production costs. For the country's economy, the wages are concrete process of wealth distribution and indirect effects to consumption, promote economic development.

Wages in the State sector have more important implications because of its significant effect to socio-economic. If civil servants are not enough living by wages would be a major disaster, destroy the State civil service. Civil service wages should be a major motivation for civil servants stick to State agencies, devotion to duty without corruption. Singapore is a typical example high wage paid to civil servants and can be competitiveness with the private sector. This is a strategic choice of the Singapore leader over past decades (since 1988 until now). Hence, Singapore attracts and *retains talented people* working for the government. Singapore emerged as a strong economy with attractive investment environment and clean administration and GDP per capita ranks 3rd over the world (International Monetary Fund statistic, 2010). The government always top of the list in terms transparency and anti-corruption. This is a consequence of treatment public policy wise and lucid when select wage of civil servants is a key role to reform.

Human resources and HRM are considered one of the most important factors of firm (A. Aslan Şendođdu *et al.*, 2013), both of which have a duty created stability and increase competitive advantage of firm (Jay Barney, 1991 and Patrick M. Wright *et al.*, 1992). Developing the human resources helps firms face challenge better (Wang Dan *et al.*, 2011), improve effective business for firm, regardless the type of operation either production or service industry. According to Storey (1995b) and Susan Marlow (2006), HRM is a distinctive approach to employment management which achieved a competitive advantage, a highly committed and working efficiency of a firm's workforce. Therefore, HRM responsible for the attraction, selection, training, developing, estimation

and reward of employees to fit the strategy and adapting them to the competitive environment are the main tasks of the HRM in the companies (Harun Demirkaya *et al.*, 2011 and Schuler, 1995).

So HRM, wage and working efficiency have relationship with each other. The purpose of this article is to present the difference of wage system of employee between State enterprise and non - State enterprise sector in Viet Nam by perspective HRM. The present study carried out in a firm sample Huong Giang' travel company, Ho Chi Minh City belongs to non – State sector.

2. The efficiency of wage in HRM:

Human resources are the core elements, the backbone of the organization. That is one group of many people with different personalities working together for a common purpose. So to increasing work capacity and work efficiency of organization the management role is essential. The manager must use skills to promote the working efficiency of employees and wage is considered one of the useful instruments to stimulate work (Suzana Demyen *et al.*, 2013, Nguyen Thi Lac Thu *et al.*, 2013 and Lado, 1994). Several recently papers investigated the impact of wage on working efficiency (Thomas J. Carter, 2005, Alex Bryson *et al.*, 2011 and Youndt *et al.*, 1996). They concluded that wage is one of the most important factor influences to working efficiency. Indeed, Oriana Bandiera *et al.* (2005, 2007) carried out analyzed personnel data from a leading United Kingdom based fruit farm for the 2002 season. He shown that productivity of fruit pickers rises dramatically when change calculation method of wage and emphasis that rewards is also a factor can play in improving worker productivity.

All organizations always rely on three major resources: physical resources, financial resources, human resources and HRM management human activities in organization. HRM try to using maximum the human resources to provide maximum benefits to organization. Toward this end, HRM make employees feel comfortable in their job and promote their work dynamics. Frederick Winslow Taylor put forward the idea that workers are motivated mainly by pay. His Theory of Scientific Management argued the following: Workers do not naturally enjoy work and so need close supervision and control. Therefore managers should break down production into a series of small tasks Workers should then be given appropriate training and instrumentals so they can work as efficiently as possible on one set task. Workers are then paid according to the number of items they produce in a set period of time- piece-rate pay. As a result workers are stimulated to work hard and maximum their productivity (Frederick Winslow Taylor, 1911). Ichniowski *et al.* (1997) and Wood (1999) concluded that the organization with effective HRM policies may increase the motivation and promote voluntary spirit of employees.

The argument is that paying workers a higher wage may lead to increased productivity from the worker. If a worker gets a relatively higher wage, he may feel more loyal and devoted to the company. With a higher wage, he may also fear being made unemployed and so will work harder to make sure he keeps his job. Therefore, although the firm pays more, they get more productivity from their workers. In general, wage policy is one of the method stimulates working performance of employee, since boots development the firm.

In this paper, we only consider wages concept is an agreement between employer and employee by an employment contract, abide in law of the labour union. Besides, wage is an amount of money as the monthly pay that employees receive for their work in firm. In terms of economics, the rise of wage is one of a method to evaluate the level of labour supply. There are two ways to vision about wage gains it is from employee and employer. The employee of view wage gains as income or worthy reward for working efficiency. Contrary, the employer thinks that wage gain is a cost for using labour and must be distinction between physical and intellectual labor. However, the laws stipulate for the basic of wage system and also minimum level of wage that firms must be pay for the employees.

3. Overview of economic and wage in Vietnam:

In 1986 Viet Nam began carry out economic reforms and has changed Viet Nam from one of the poorest countries with per capita income lower than \$100 to lower average income countries within 25 years with per capita income up to \$1,130 in the end of 2010. The percentage of population living in poverty significant decrease 58% in 1993 to 14.5% in 2008, simultaneous a lot of social security index also improved significantly. (See reference <http://www.worldbank.org/en/country/vietnam/overview>)

Vietnam also appreciate ability to development better than the others countries with the similar conditions.

Figure 1 show that GNI per capital in Viet Nam grow steadily over the years (1999 -2012). However, compare to most of its Asia neighbors, GNI per capital in Viet Nam still very low. In 2012 GNI per capital is \$3 620 less than 40% in Thailand (\$9 280).

Two decades after Vietnam introduced a program of economic renovation commonly known in *Doi Moi* ("Doi Moi" or open policy was introduced and applied in 1986), the country today allows market competition in industry, and a new working class has been created. As of the 1st January 2013, the total working-age population of Viet Nam aged 15 years and older was 68.82 million, of which 52.79 million people were in the labour force.

The microeconomic literature on wage growth, wage inequality in Vietnam has become increasingly rich as data accumulate. All existing studies use data from the Vietnam Household Living Standard Survey.

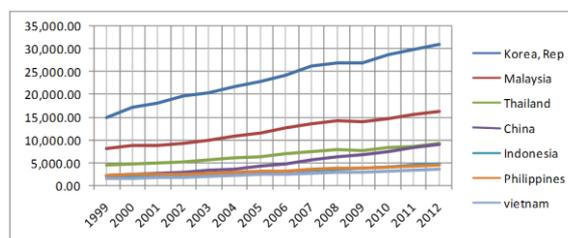


Fig. 1: GNI Per Capital of Viet Nam and the other countries in Asia.

Source: World Bank, World Development Indicators.

Table 1: Percentage of trained employees among total labour in Viet Nam Source: Vietnam Statistical Yearbook, 2012.

	2010	2011	2012
Not any	83.5 %	84.4%	83.2%
Vocational training	3.8%	4.0%	4.7%
Secondary vocational school	3.5%	3.7%	3.7%
College	1.7%	1.8%	2.0%
Graduate and above	5.7%	6.1%	6.4%

Observe Table 1 can see that qualification of Viet Nam still modest. Most of Vietnam's labour not qualification trained: 83.5% (2010), 84.4 % (2011) and 83.2% (2012). Percentage of graduated university employee fluctuate 5.7% to 6.4% from 2010 to 2012. The qualification of labour force not high and labours trained about 16% among total labour in Viet Nam. It can be concluded that quality labor in Vietnam are low.

The microeconomic literature on wage growth, wage inequality in Vietnam has become increasingly rich as data accumulate. All existing studies use data from the Vietnam Household Living Standard Survey.

Table 2: Average wage, the activities of the national economy in 2012, Source: Vietnam Statistical Yearbook, 2012

	1000VND/employee
1 Agriculture, silviculture and fishing	2 543
2 Mine ores	5 643
3 Industrial processing and manufacturing	3 636
4 Manufacture and distribution of electricity, gas, steam	5 253
5 Water supply, sewerage, waste management	3 769
6 Constructions	3 369
7 Wholesale and retail trade, repair of automobiles, motorcycles	3 774
8 Transportation and storage	4 660
9 Hotels and restaurants	3 248
10 Information and communication	5 880
11 Insurance and financial intermediation	6 855
12 Real estate	6 973
13 Professional, scientific and technical activities	5 814
14 Administrative service activities	4 765
15 Public administration and defense, social insurance in public system	3 872
16 Education	4 260
17 Health and social assistance	4 422
18 Cultural activities	3 852
19 Other activities regarding services	2 795
20 Employed family caregivers	2 298
21 International agencies (*)	8 131
Total	3 757

Note (*): This sector's employees are small samples, so the reliability is low.

The work performed during the year 2012 was rewarded according to the table above. Here are listed the activities of the national economy and average gross wages for each. Based on these data we conclude that the highest salary is reflected in International agencies, where we find a maximum of 8 131 000 VND per employee. Real estate are highlighted with an average gross 6 973 000 VND, and Insurance and financial intermediation are highlighted with an average gross 6 855 000 VND, while the following places have similar amounts, 5 880 000 VND per employee in the case of Information and communication, respectively 5 643 000 VND regarding activities Mine ores. Other activities vary as wage compensation, the lowest value being found in the case of Agriculture, silviculture and fishing 2 543 000 VND per employee.

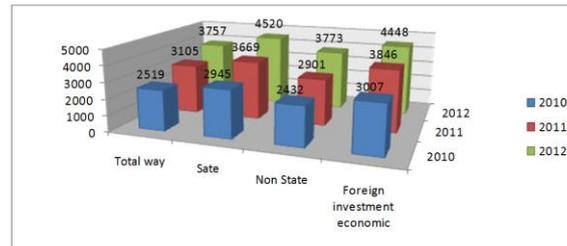


Fig. 2: Average monthly earning of wage workers aged 15 above sex, economic sector (thousand VND).

Source: Vietnam Statistical Yearbook, 2012

If we analyze the evolution of average monthly earnings of wage, by type of ownership, according to the years 2010- 2012, we can conclude the following:

- Data related to the type of economic sector provides basic information, namely that Non –State offer lower salaries than state.
- Wages tended to increase over each year from 2010 to 2012.
- The average wage per capita of foreign investment sector is highest.

In general, Vietnam is still a poor country and underdeveloped economy, although average wage of employees increases over each year but still low. The income level directly affects the quality of peoples' lives. Therefore, the analysis of effect of wage employees not only affects compensation – profits in internal enterprise but also affects overview of Vietnam's economy.

4. Compare wage status between State enterprise and non-State enterprise:

4.1 Wage system in State enterprise:

The state of Viet Nam promulgate the pay scale system to payment for employee who work for the administrative sector, the commission, the people's armed forces... in general is State employee.

Simultaneous, in the non-State enterprise also reference the pay scale system to establish a wage system for business. The state enterprises use the pay scale system to extract insurance, employee benefits. The majority of wage system Viet Nam base on “the regime of wage grade”.

The regime of wage grade established to pay for employees base on labour quality and labour condition. The labour quality is shown by the level of skilled, understanding professional expertise, and accumulated experience during the labour process of employee.

The wage of employee is calculated according to the formula:

$$M_i = M_1 \times K_i$$

Where M_i is wage grade at i , M_1 is minimum wage grade (the State regulate for each year), K_i is wage coefficient grade at i (the State regulate of all State enterprises).

For instance, 2013 minimum wage level State regulate in the District 1, HCM city is 1 650 thousand VND.

The wage coefficient of employee graduate at University who work for State agency is 2.34. So the wage level that employee receives: $1\ 650 \times 2.34 = 3\ 861$ thousand VND.

Table 3: The State minimum wage regulations of State employees and divide by region. (thousand VND)Source: Socialist republic of Viet Nam Government Portal.

Region	2007	2008	2009	2010	2011	2012	2013
Region 1		620	800	980	1 350	2 000	2 350
Region 2		580	740	880	1 200	1 700	2 100
Region 3		580	690	810	1 050	1 550	1 800
Region 4		540	650	730	830	1 400	1 650
Average	450	580	720	850	1107	1662	1975

We can observe that the State minimum wage regulations increase gradually for each year. In 2007 there was no disparity of the minimum wage between the regions and it was applied in whole country. From 2008 until now, the minimum wage of State employees has been divided between the regions. On the whole, the gap of disparity minimum wage between the regions is not large and absolutely do not exceed 30%. This show that the Viet Nam government has studied carefully and evenly distributed the wage floor between the regions so that not create a significant gap in wages between regions in the country.

However, that is preliminary overview of the minimum wage of State employees. In order to understand the impact of minimum wage on the employee lives of State employees, the author consider the relationship between State wage with wage of non-State enterprise in HCM city and the average wage of Vietnamese. This is discussed in the following section

4.2 Wage system in non-State enterprise:

Wage system of non-State enterprise was established depending on the perspective on wage of enterprise. The enterprise can choose remuneration according to job or to the individual. In the non-State enterprises Viet Nam, the wage system according to the individual was applied least because it easily lead to bureaucracy, formalism when certify of skill, qualifications of employees. On the contrary, the wage system according to job is more applied and traditionally although there are defective but it more reasonable, more objective, systematic, easy to build and manage.

In the perspective on remuneration according to job, the construction of a reasonable wage system requires three basic decisions. Each decision to answer an important question about the remuneration programs of an enterprise.

The first decision – decide on the level of remuneration: Related to the overall level of remuneration of an enterprise. This decision to answer the question: the labour force in an enterprise receives how much wage in comparison with employees of other enterprises when performing similar job.

The second decision – decide on the wage structure: Related to the payments for difference jobs in an enterprise. This decision to answer the question: how much money is paid for a job in comparison with other jobs in an enterprise.

The third decision – decide on employee wage: Related to the encouraging and satisfactory payment for employees. This decision to answer the question: each employee receives how much money in comparison with amount of money that their colleagues receive in the similar job.

Three decisions are important create fairness and motivate contribution of employees, especial in decision on wage structure. The target of decision on wage structure is provides amount of equivalent remuneration for employees in the jobs were evaluated equality and establish an acceptable about difference of wages for jobs are not equivalent

The construction of the wage structure requires a comparison of the jobs in an enterprise. The decision on the wage structure, the human resource manager should be based on: unilateral decisions of senior management, collective agreement between management and HR department or the job evaluation panel. Besides that, the construction of the wage structure in an enterprise need to compare with other enterprises in the same field, the same region.

4.2.1 Practically applied at the Huong Giang's company:

In order to illustrate clearly wage system in a private enterprise in Vietnam, the author carried out a review the pay scale of a company in HCM city with the recent database 2013. The company was selected is Huong Giang travel service company. Company size is average compare with other private businesses in Vietnam with nearly 50 employees, the recent profit is 187 billion VND.

Table 4: Pay scale system in Huong Giang's company 2013 (Unit: thousand VND) *Source: Huong Giang's HR department.*

Office	Grade	Wage coefficient					
		2	4	6	8	10	12
Director/ Assistant Director	G1	7 880	9 055	10 230	11 640	13 050	14 460
Chief of department	G 2	5 882	6 822	7 762	8 702	9 642	10 582
Team leader	G 3	5 205	6 145	7 203	8 378	9 553	10 728
Senior expert	G 4	3 732	4 423	5 363	6 303	7 306	8 535
Expert	G 5	3 386	4 077	4 768	5 459	6 150	6 841
Staff	G 6	3 041	3 746	4 451	5 156	5 861	
Labourer	G 7	2 585	3 055	3 525	3 995	4 465	

The pay scale system of Huong Giang's company establish 7 grades, each grade include 12 levels from 1 to 12. Wage system closely proves the company is very interested in pay for employees. Disparity employee's wage between grades fluctuations not exceeding 17% and disparity wage between leadership and employees is quite large, this is accordance with payment policy base on level of dedication.

In order to clearly understand wage system of Huong Giang's company, continue to consider correlation between it with average wage of employee in State sector and average wage of Vietnamese.

4.3 The comparison:

Observe figure 3, the level minimum wage was regulated by State increase each year (2006 to 2012), from approximate 450 thousand VND 2006 to over 720 thousand VND 2008 and 2012 is 1975 thousand VND. However, the minimum wage of employees who work for the State sector is always lower than the minimum living standard of the Vietnamese. The disparity between the minimum living standard and the minimum wage in 2006 is 61 thousand VNĐ, 2008 is 73 thousand VND, 2010 is 104 thousand VND, 2012 is 42 thousand VND. It is a sad situation for employees who work for the State sector with the minimum wage not response to minimum spending.

Next, the author compares the average income of employees in State enterprises and the Huong Giang's company in correlation with the average income of Vietnamese (Fig 4).

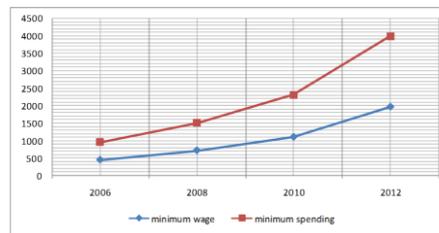


Fig. 3: The average minimum wage between the regions and the level minimum spending of employees in VN (Unit: thousand VND)

Source: National Institute of Statistics, Annual Statistical Yearbook

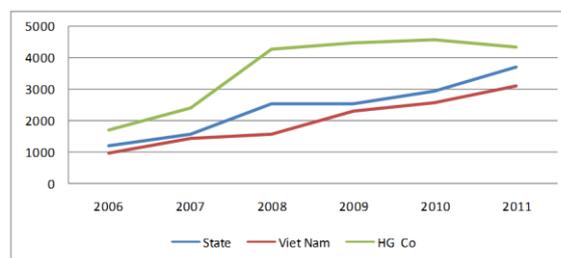


Fig. 4: The average income of employees in State enterprises, Vietnamese and HG's company Source: National Institute of Statistics, Annual Statistical Yearbook

The average income of employees in State sector are higher than Vietnamese however the disparity is not too large.

According to the National Institute of Statistics Vietnam published in 2012: 17% Vietnam's labour in the whole country have qualification; 47% labour who work for the State sector have qualification. Labour rates with qualification *who* work for the State sector more than the general rate of over country. However, the disparity average wages of employees in the State sector are not much higher than the average wage of employees in Vietnam.

On the contrary, author compare average wages in the State sector with Huong Giang's company and see that average wage disparity of both region are large. The average wage of employees in Huong Giang's company is 6064 thousand VND and in State sector is 4520 thousand VND in 2012.

For more details, observe the average monthly wage of employees with qualification in State sector, Huong Giang's company and average monthly wage of Vietnamese in Figure 5.

The average monthly wage of employees in State sector is calculated based on State regulation wage coefficient at Vocational training, Long-term vocational training, College, University and over then multiplied minimum wage based on State regulation for regions in 2012. Here, minimum wage is averaged between 4 regions State regulations. The remaining datas based on source National Institute of Statistics (Annual Statistical Yearbook) and internal data of Huong Giang's company.

Basic wage of employees have just joined in State sector are lower than the average wage of Vietnamese with same qualification and the disparity larger when compare with non -State enterprise.

At the University level, basic wage of employees have just joined in State sector is 3861 thousand VND while wage floor of employees also at the university level in Vietnam is 6007 thousand VND and Huong Giang's company is 6303 thousand VND

At the College level, basic wage of employees have just joined in State sector is 3465 thousand VND, average wage of Vietnamese is 4146 thousand VND and Huong Giang's company is 4710 thousand VND.

Low wages make difficult recruitment and negotiation with the candidate high level, experienced in management position if not treatment by a special mechanism.

According to National Institute of Statistics Viet Nam (table 2), average income of employees in State sector are always higher than non- State sector. At first blush, seemingly paradoxical however it can be explaining: basic wage in State sector is low but average income is high because rich allowance policies of State for the employees. For example, responsibility allowance, toxic allowance, remote area allowance, danger allowance, seniority allowance...and specially protectionist policy State for some of State enterprises monopoly.

Simultaneous, average wage of employees in State sector are always higher than non- State sector (Vietnam Statistical Yearbook, 2012), in part because average wage including leadership's wage and this wage are often high. Besides that, a lot of wage violations in State enterprises also contributed to the average wage of employees in State sector are always higher than non- State sector.

Wage in the State sector have the inadequacies, large disparity between "boss" of firm and employees. Principles division of wage grade, wage increase primarily based on seniority, diploma and not yet think highly of the assessment of abilities, business efficiency, work completed in the fact.

The wage and reward system for employees in both the State and private sector are different. Wage system of State sector is complex, wage too low not enough response to expenditure needs of employees lead to corruption or work for both State sector and non- State sector so efficiency labour in State sector weak. The wage system for employees in non- State sector is relatively simple and establish base on relationship between working efficiency and wage should satisfy employees.

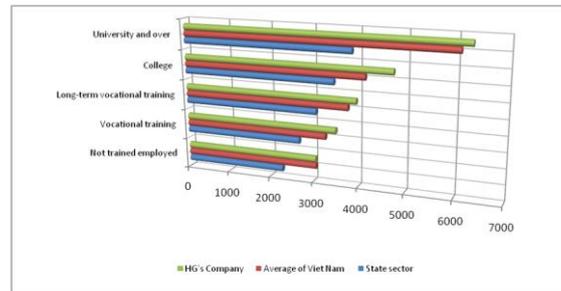


Fig. 5: The average monthly wage of employees by qualification (The wage is calculated in region 1).

Conclusions:

One of the functions of human resource management is creating incentives work for employees and the wage and reward system are considered as a solution to stimulation morale working for employees. This paper shows the current status of labour wages in the State sector of Vietnam is lower than the Non- State sector and its implications for the social economy is enormous. This is a sad signal for the quality operation of State enterprises.

Wage has not really become motivated for employees in public sector, not yet promote officials complete the task therefore not contribute to improving the capacity of public servants improve the effectiveness and efficiency of the public administration. The pay scale system, scale of wage and wage grade are very complex. The current wage system not yet incentive effects, motivate officials strive complete task. The expansion distance of wage also makes wage more accurately reflects the working efficiency of officials.

Therefore, Viet Nam needs a new wage reform for officials in State sector and this should be considered as a breakthrough in the reform agenda of the national administrative.

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