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Incentive programs as an instrument of business management

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ABSTRACT

An effective incentive system that not only meets the expectations of employees, but also positively affects the economic situation of the company is a guarantee of the success of the given organization. Implementing incentive programs should be preceded by an in-depth analysis and proper preparation that may let these projects to adapt to the needs of employees and protect against the claims of tax or insurance authorities.

Keywords: motivating, incentive programs, business management, employee efficiency

1. INTRODUCTION

At present, the most important resource of each company is invariably its employees. The right motivation, supported by effective motivating tools, is an essential element of the efficient functioning of each enterprise that leads to the effective use of skills and qualifications possessed by staff members.

Taking into consideration the fact that the expectations of employees are constantly growing, many companies decide to introduce attractive income supplements. It is also important that incentive programs play an increasingly significant role in building the position of employers on the labour market. Unfortunately, the solutions implemented are frequently

based on incorrect assumptions or are constructed in an improper manner, which may result in the failure to achieve the assumed objectives and the need to cover excessive costs.

The purpose of this article is to show the role of motivating employees in the business management system and to discuss incentive programs that are a necessary factor affecting the company's financial performance, while maintaining legal and financial security in the era of increased activity of tax authorities.

2. THE ESSENCE OF MOTIVATING EMPLOYEES

R. W. Griffin, when looking for the general sense, defines motivating as a set of forces that make people behave in a certain way [2]. Motivating consists in setting a goal, determining the direction of its implementation and evoking psychological mechanisms that favor behavior consistent with the adopted assumptions and the course of their achievement [3]. Many researchers assume that motivating is a management process that involves influencing people's behavior, including knowledge about what causes such and not other human behaviors [3].

The interest in the motivation of staff motivation stems from the belief that a firm and strong position and attractiveness on the market is gaining thanks to the acquisition of appropriate human capital. It is an extremely valuable enterprise wealth, the involvement of which depends largely on the company's operations as well as its further development. The success of an enterprise in every industry depends on how effective the work of the employees is. Motivated staff is a guarantee of successful and fruitful work and progressing organization towards achieving its strategy and strengthening its market position [8].

The obligation to properly manage human resources, which includes employment, development and motivation, is one of the most complex and labor-intensive tasks of managers and managers in the current market [4]. Business managers should therefore maximize the potential of employees and provide them with the right motivation for this purpose. Their mission consists in successively exerting influence on their subordinates and developing proper attitude to the tasks entrusted to them.

Motivation is one of the most important factors in the increase of work efficiency, thus being the motor force of human behavior and actions, in turn the appropriate motivation of employees is considered a priority task for managers at all levels of the organization.

Work motivation is a longstanding topic in organizational studies. It is the primary determinant of performance for both private and public sectors. In organizational studies, several concepts are often misunderstood. On the one hand, satisfaction (in this case work, job satisfaction) is a psychological state characterizing the interaction between an individual and his or her organization, between his or her expectations and the perception of the obtained results. On the other hand, different concepts focus on the attachment to the organization. Organizational commitment is a psychological state characterizing the link between an individual and his or her organization and it is closely related to the decision to stay within it or leave.

Organizational identification characterizes: "the process by which the goals of the organization and those of the individual become increasingly integrated or congruent", whereas work involvement aims at a comprehensive understanding of the way an individual projects him/herself into work and identifies with the job.

This concept is related to the nature of the individual's investment in his/her professional role besides other potential roles. Work motivation, however, is a process by which the employee decides to work hard and sustain his/her efforts. Because patterns can be identified in the actions of employees at work, this concept is of particular interest.

2. 1. What motivates employees?

Antal conducted a research on voluntary reasons for leaving work. Based on data from 214 companies, it employs a total of over 80,000 employees [1]. The results are published in the report "Outflow of employees from the organization. Attrition report. Antal 2016 "showed that more than 70% of leaving work is caused by a proposal to receive a higher salary in a new place [2]. Last but not least, every sixth out of work indicated that he was driven by the desire to obtain more attractive non-wage benefits. Almost 60% of employers try to counteract the outflow of employees by increasing basic remuneration. Fewer offer training to subordinates. It is only next that they pay attention to additional non-pay benefits or bonuses expressing appreciation for good results. Research also indicates that almost 40% of employees are ready to stay in the organization in exchange for receiving attractive benefits or bonuses.

Encouraging employees to stay in the workplace can bring measurable financial benefits, because statistically leaving the employee is associated with the need to incur costs equivalent to 150% to 180% of the annual salary of a person in such a position [5]. They include the cost of the recruitment process, expenses for the implementation of a new employee in the procedures and rules prevailing in the company, the value of the necessary training or briefing due to the outgoing person.

However, is the introduction of an award-winning system just enough to positively affect the retention of employees in the organization? It seems that equally important, if not bigger, is its form. In addition to reducing staff turnover in the company, incentive programs also provide many other tangible benefits. Correlating the amount of remuneration with the degree of achievement of goals set by the employer, they help motivate to achieve ambitious results [5]. By providing attractive pay conditions and showing the impact on the value of the organization, they increase employee satisfaction and commitment. By showing the employer as caring for employees, they warm up the image of the company and attract new talents [2].

Many theories and definitions of this construct compete to explain what motivates people and how they are motivated. Apart from the diversity of conceptualizations and measurements of what induces employees to put energy and heart into a given task, most authors nowadays agree with the basic premise that: "the concept of motivation represents a hypothetical construct used to describe the internal and/or external forces producing the induction, the direction, the intensity and the persistence of behaviour" [4]. According to this definition, motivation is a meta-concept which comprehensively focuses on the efforts and energy deployed by an individual when acting in a given setting. This construct relates to the individual's project, the general meaning that he/she attributes to his/her actions and behaviours.

For a work organization, this energy has to be deployed toward organizational goals and objectives. "Orientation of the motivation concerns the underlying attitudes and goals that give rise to action - that is, it concerns the why of action" [3].

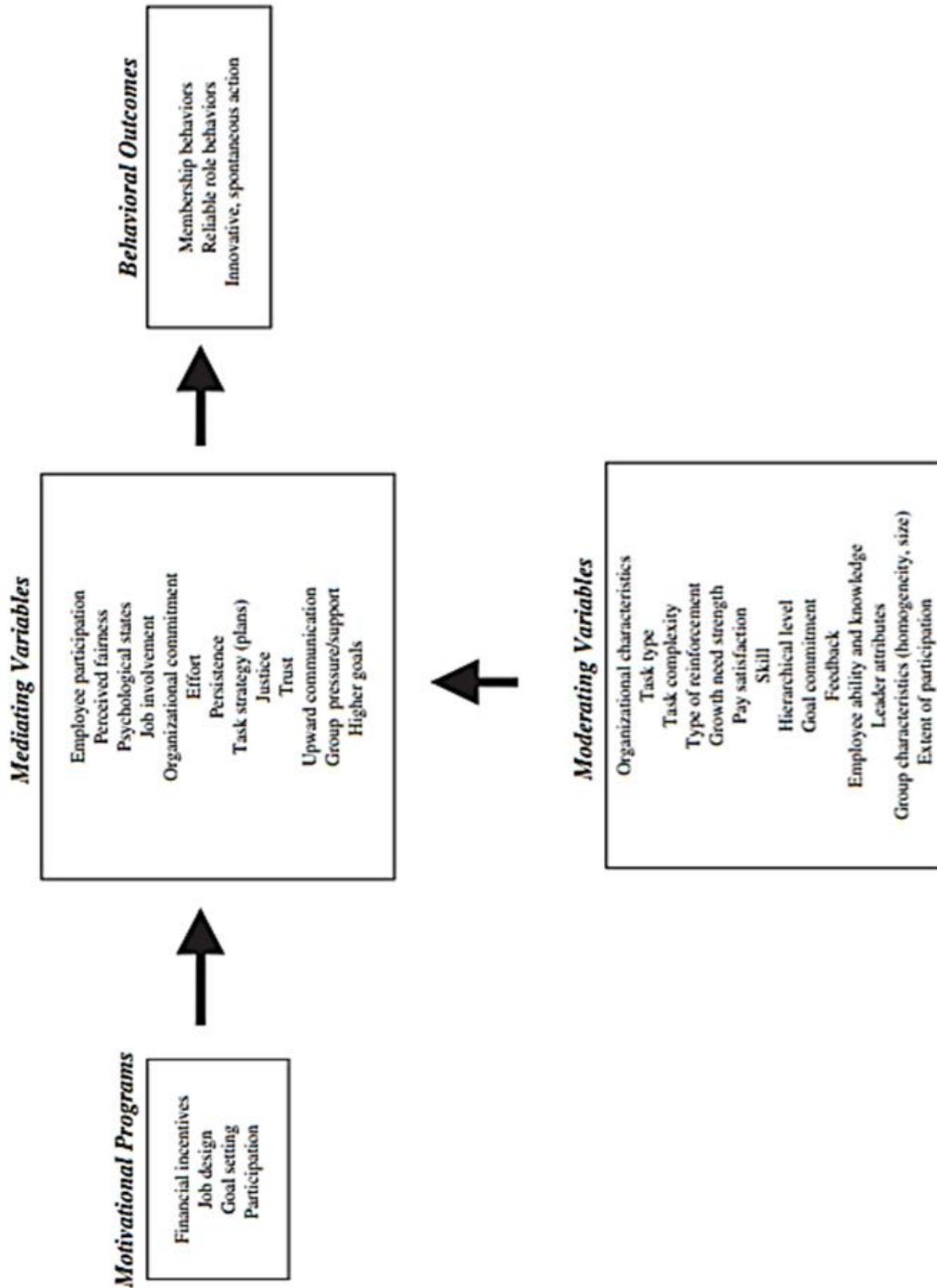


Figure 1. Motivating employees [1].

Contrary to the PSM construct, which explains that public employees behave according to specific, value-laden motives, founded particularly in the public sector environment, work motivation is a generic concept explaining why employees deploy and sustain energy at work. Need, motive and value theories focus on the individual (internal) or situational (external) determinants of behaviour. They share the fact that motivation arises when individuals seek optimal satisfaction of certain needs. "Need theories" were developed on the back of Maslow's hierarchy of human needs. More associated with work motivation questions, Herzberg's two factor theory (hygiene and motivation) posits that these two categories function differently and that it is the motivation factors which increase satisfaction while hygienic factors only serve to reduce dissatisfaction. Later, self-determination theory introduced the intrinsic - extrinsic dichotomy into motivation theories [7]. Against the background of these work motivation theories, several needs or motives can be identified throughout the literature. Here we focus on three main categories of motivators: Public Service Motivation (PSM), team relations and support and material incentives. The expected impact of each category of variables on work motivation is presented in the following paragraphs, before being integrated in a global model which also includes some control variables [4].

2. 2. Financial incentives

What is the logic of financial incentives, and what impact do they have on employee motivation? The use of monetary or other financial incentives in the classic performance paradigm is based primarily on the theoretical propositions of reinforcement theory. Reinforcement theory focuses on the relationship between the target behavior (e.g., performance) and a motivational tool (e.g., pay for performance) and it is premised on the principles and techniques of organizational behavior modification, Figure 1 [5].

Organizational behavior modification is a framework within which employee behaviors are identified, measured, and analyzed in terms of their functional consequences (i.e., existing reinforcements) and an intervention is developed using principles of reinforcement [3]. Our review of the literature focused on organizations use of financial incentives to increase both individual and group performance and productivity. These types of monetary incentives include individual and small group rewards, as well as profit-sharing and gainsharing incentive plans. Seventeen review articles, among them three meta-analyses and nine research syntheses, informed our analysis in this instance. The reviews examine these types of financial incentive systems or address merit pay, pay-for-performance, variable pay, or group bonus plans. From this analysis, we culled three general propositions that are suitable for informing practice and theory building [2].

2. 3. Approaches to job design

The approaches to job design have been postulated in such a manner that they indirectly affect an employee's level of motivation. The approaches to job design have worked in different perspectives for various organizational developments.

These approaches are [6]:

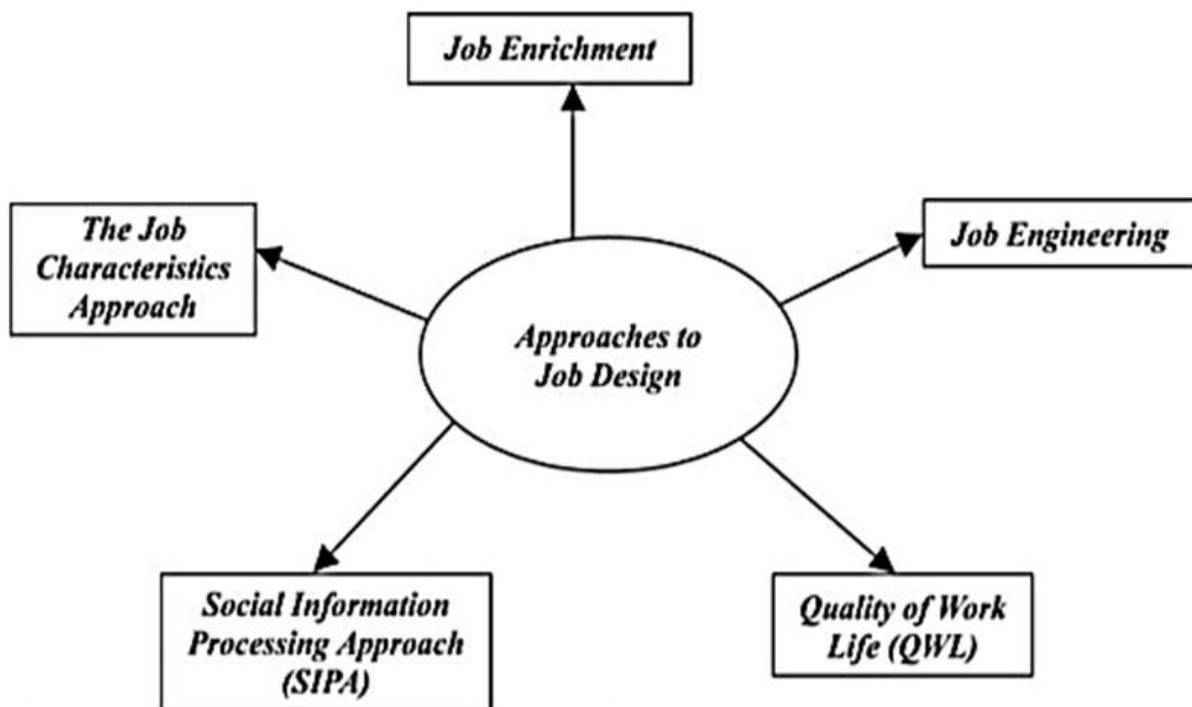
- job engineering - the technique entails enriching the job, which refers to the inclusion of greater variety of work content, requiring a higher level of knowledge and skill, giving workers autonomy and responsibility in terms of planning, directing, and

controlling their own performance, and providing the opportunity for personal growth and meaningful work experience.

- job engineering - the scientific management approach evolved into what is now generally called job engineering. It is closely associated with cybernation and sophisticated computer applications, computer assisted design (CAD), and human-machine interactions. In fact, it has been the dominant aspect of job design analysis.
- quality of work life and socio-technical design - the overriding purpose of quality of work life is to change the climate at work so that the human-technological-organizational interface leads to a better quality of work life.
- social information processing approach (SIPA) - approach to job design suggests that individual needs, task perceptions, and reactions are socially constructed realities. The process includes choice, revocability, publicness, explicitness, social norms and expectations, and external priming, which combine with social information (from others and the organizational environment) and influence the jobholders perceptions, attitudes and behaviors.
- the job characteristics approach to job design To meet the limitations of Herzberg's approach to job enrichment (which he prefers to call orthodox job enrichment (OJE), Hackman and Oldham (1976) developed the most widely recognized model of job characteristics, as shown in Figure 2. Basically, this model recognized certain job characteristics that contribute to certain psychological states and that the strength of employees need for growth has an important moderating effect. The core job characteristics are summarized below [7]:
 - Skill variety. This refers to the extent to which the job requires the employee to draw from a number of different skills and abilities as well as upon a range of knowledge.
 - Task variety. This refers to whether the job has an identifiable beginning and end or how complete a module of work the employee performs.
 - Task significance. This involves the importance of the task. It involves both internal significance (i.e. how important the task is to the organization) and external significance (i.e. how proud employees are to tell their relatives, friends, and neighbours what they do and where they work).
 - Autonomy. This refers to job independence. How much freedom and control employees have to perform their job, for example, schedule their work, make decisions or determine the means to accomplish the objectives.
 - Feedback. This refers to objective information about progress and performance that can come from the job itself, from supervisors or from any other information system.

Critical psychological states can be summarized as follows:

- Meaningfulness. This cognitive state involves the degree to which employees perceive their work as making a valued contribution, as being important and worthwhile.
- Responsibility. The degree to which the employee feels personally accountable for the results of the work they do.
- Knowledge of results. The degree to which the employee knows and understands, on a continuous basis, how effectively they perform their job (Figure 3).



Figures 2. Approaches to job design [5].

- Diagnosing and measuring job scope- there are several ways in which the Hackman-Oldham model can be used to diagnose the degree of job scope that job possesses. More systematically, Hackman and Oldham developed a questionnaire, The Job Diagnostic Survey (JDS) to analyze jobs. The questions on this survey yield a quantitative score that can be used to calculate an overall measure of job enrichment, or what is increasingly called “job scope”. For this, the motivational potential score (MPS) is calculated [4]. The formula for this is:
- Towards a proposed model of job design- an elaborated model of job design has been proposed considering the designing of job at individual and group level. The proposal has been made on the following grounds.

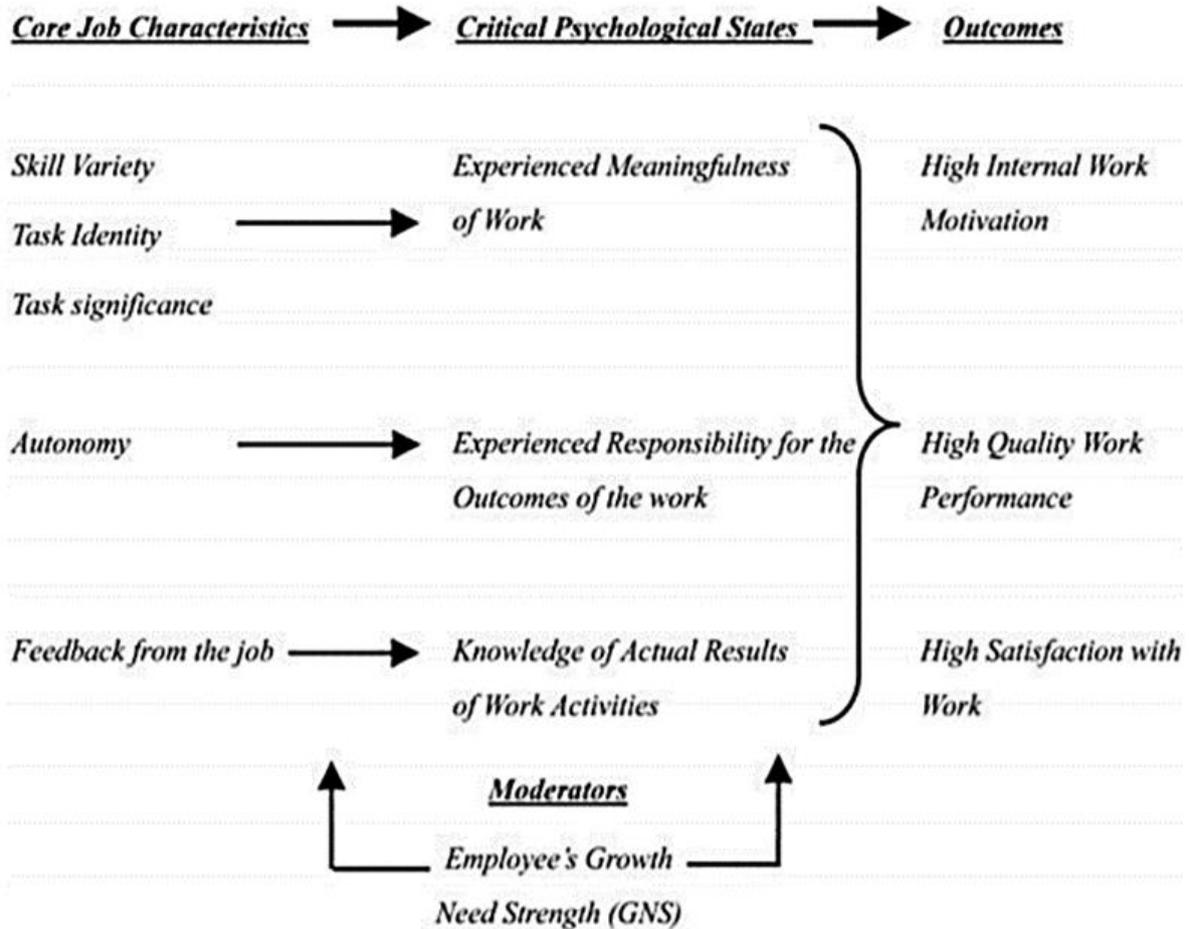


Figure 3. Hackman-Oldham job characteristics model [5].

2. 4. Antecedents and expanded job characteristics

Various factors influence and constrain the choice of job design. Such factors can be internal to the organization, such as style of management, technology, organizational design, workplace spirituality or high performance improvement [6]. Factors can also be external, such as environmental uncertainty, available technology and labor market. Thus, considering the external and internal factors, it is important in many ways to manipulate job characteristics. This can be done, for example, by removing demarcation barriers by running management development programmes (MDPs), promoting cultural changes or conducting behavior modification programmes. For this, technology and job design need to come together to deliver excellent services. Thus, in a well-defined circumstance, it is reasonable to assume that individuals might mould their job characteristics to fit their individual abilities and personalities [4].

Moreover, environmental uncertainties such as downsizing and layoffs make it vital in many ways to manipulate the available human resources by considering them as the social capital of the organization. For this, managers must initiate and develop relationships among

individuals, organizations and communities. Managers must initiate and develop social capital with three aspects [8]:

- 1) the structural dimension, which concerns the overall pattern of relationships found in organizations;
- 2) the relational dimension, which concerns the nature of the connections between individuals in an organization;
- 3) the cognitive dimension, which concerns the extent to which employees within a social network share a common perspective or understanding.

The creation of social capital assists in solving problems of coordination, reduces transaction costs, and facilitates the flow of information between and among employees. It also facilitates collective procession of work-related activities, growth in teamwork, collective representations, and collective emotional experience, that is, tuning one's own emotional state to that of another person or work group, reflecting joint activities, common goals, norms, and values. Consistent with this notion, social capital directs high internal motivation leading to high performance and making employees more successful in achieving goals in comparison to organizations that have less capital [6].

As we already know that technology has become the lifeblood of every organization, it is vital to make the optimum use of available technology. Technologies like e-commerce and e-business have become buzzwords in every organization and have affected life in the workplace. With the introduction of e-commerce, transactions and dealings are being undertaken on the internet, enhancing the job profile of employees. Similarly, e-business has a full breadth of activities, including the development of strategies for running internet-based companies, improving communication between employees and customers, and coordinating design and production electronically. The resulting increased level of motivation leads to high performance in employees. Thus, with such forms of technological advances, employees can meet two types of cognitive demands that often emerge in manufacturing settings [3]:

- 1) attention demands;
- 2) problem-solving demands.

Attention demands occur as a result of increased vigilance requirements and problem-solving demands occur because of the need for fault prevention and active diagnosis of errors. Moreover, traditional job characteristics such as job autonomy, task variety and feedback are likely to be key factors. Feedback is one of the salient features within modern settings, especially given the prevalence of electronic performance monitoring (EPM). This provides accurate, fair and timely feedback that can help employees cope with work demands. Others have suggested serious downsides, such as reduced privacy and increased workload but employees can perceive EPM positively if there is high trust and a supportive culture.

Another element of job design concerns the emotional demands of work. There can clearly be positive benefits of emotional displays for organizations. Positive emotional displays control the exchanges with customers or clients, and hence lead to customer retention. For this, autonomy would enable the individual to enable to control their exposure to emotional demands [6].

A further development necessary in job design is growth in teamwork or considering group-level work characteristics in a more systematic manner. Thus, this means focusing on

aspects that are the function of groups, such as the design of cohesion among members, team composition, and interdependency and shared knowledge structures [5].

This will result in collective representations, which are the components of a system of knowledge, opinion and behavioral norms originating from social experience. This will also lead to collective emotional experience, that is, tuning one's own emotional state to that of another person or work group, reflecting joint activities, common goals, values and norms.

Our discussion now moves towards the internal factors of the organization that play a vital role in motivating the performance of employees.

These factors are [4]:

- human resource management;
- ergonomics;
- organizational culture;
- leadership style;
- human performance improvement (HPI);
- workplace spirituality.

As we already know that HR or personnel management is an essential part of every manager's responsibility, thus managers must consider employees as the most valued asset of an organization. To promote novel thoughts and ideas, a proper blend of HR strategy and job design is required. There should be appropriate manpower planning. Employees must be selected according to the knowledge, skills, and abilities that are apt for to the job to be performed [6]. Apart from this, employees must be given proper training so as to enhance their levels of knowledge, which will motivate them to perform better as they will be in a better position to meet global challenges.

2. 5. What should you know about motivation programs?

Motivating tools constitute an important set of methods, rules, ways and forms of behavior and organizational solutions that regulate the motivational process in the enterprise. They directly influence people's behavior, affecting their awareness, attitude to work and superiors, as well as shaping mutual relations.

In the context of taking up discretionary tasks by employees, increasing their competences and the quality of work, motivating instruments are the basis for overcoming the passive and assured attitude. One of the effective types of motivational tools are incentive programs, before implementation, which are worth asking the following questions [3]:

- Is the group of participants to be broad, or should the proposal of participation be directed to a narrow group of the most important employees?
- Is cost efficiency the priority of the manager?
- Are participants and program organizers open to new forms of remuneration?
- Is the program to be short-term or long-term (one year or, for example, three years)?
- Can participants become co-owners of the company?

- Is the manager aware of the legal and tax consequences of the program that he has decided to implement?

Obtaining answers to such questions will lead to the selection of the most attractive and tailor-made solutions. It should be added that until recently, there were few provisions directly related to the taxation of income from participation in incentive schemes based on shares or stock options [5].

This often leads to the need to apply for interpretations of tax law, and sometimes also to investigate their claims before the Provincial Administrative Court [7]. The argument line changed frequently, and the rules were not entirely clear. However, this situation seems to change. With the beginning of the new year, the amendment to the Personal Income Tax Act came into force, which introduces many changes in the scope of incentive programs.

2. 6. Programs based on actions

In order to motivate employees and the board, many companies launch incentive programs based on shares. They consist in enabling eligible persons to acquire, on preferential terms, shares of the company (employers) or shares of other capital companies belonging to a given group [5]. As a rule, these shares can be bought below their market value, often for a symbolic one zloty.

The legislator who decided to introduce a tax definition of an incentive program, quite clearly defining the conditions that such a program should meet, so that participation in it is beneficial for employees from the tax point of view. According to them, incentive programs allowing for the benefit of preferential taxation will have to be created by joint-stock companies that directly employ people entitled to receive benefits, or parent companies over these entities [7].

The initiation of an incentive program should, in turn, be effected by means of a resolution of the general meeting. Their beneficiaries should be persons employed on the basis of an employment relationship or those whose income is included in the source activities performed in person (such as those employed under the mandate contract and for a specific task, or members of the management board or supervisory board) [6]. If the above requirements are met and the beneficiary acquires or subscribes for shares, the first tax moment will arise at the time the shares are sold, and the income generated will be taxed using the 19% tax rate [5].

What is important, unlike the original version of the change project, the company whose shares will be covered under such an incentive program will be able to be established not only in the EU or EEA area, but also in any country with which the Republic of Poland has concluded a double-entry agreement taxation [4].

It is worth pointing out that the provisions of the Act on the social insurance system do not contain regulations regarding postponing the tax moment, therefore the risk of recognizing that the mere fact of receiving shares (free or on preferential terms) will make it necessary to pay insurance premiums can not be excluded. Not without significance is the fact that the principles described above apply only to share-based programs [5]. Hence, employees of limited liability companies will have to take into account the necessity to pay tax as soon as they receive their shares.

3. CONCLUSIONS

In competition of markets and globalization, employee motivation, however, is not an easy managerial challenge. Staff members are expecting more and more innovative motivational tools that may fully satisfy their needs.

The report "The outflow of employees from the organization. Attrition report. Antal 2016," showed that 38% of employees are ready to refrain from changing their workplace in exchange for additional benefits. Only a little less of them -35%, decide to stay in the existing place of work if they receive additional financial bonuses, being a reward for a job well done.

It is important to recognise that even if an effective motivational program already exists in a given company, it is worth improving it due to upcoming changes in the personal income tax regulations. Only the suitably formulated incentive program allows to achieve the assumed objectives. The process of introducing it to the organization should be preceded by an in-depth analysis and preparation, which allow not only to better adjust the incentive program to the needs, but also to protect against some possible claims of tax or insurance authorities.

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