

CENTRAL AND EASTERN EUROPE IN THE CHANGING BUSINESS ENVIRONMENT | 2016



University of Economics, Prague

Faculty of International Relations, Department of International Business
Faculty of Business Administration, Department of Marketing
and

University of Economics in Bratislava

Faculty of Commerce, Departments of Marketing and International Business

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David MÜLLER, University of Economics, Prague, Department of International Business
Iveta NĚMEČKOVÁ, University of Economics, Prague, Department of International Business
Jozef ORGONÁŠ, University of Economics in Bratislava, Department of Marketing
Jozef ORGONÁŠ, ESET, Bratislava
Barbora PAHOLKOVÁ, University of Economics in Bratislava, Department of Marketing
Luboš PAVELKA, University of Economics in Bratislava, Dept. of International Business

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The effect of performance-based rewards on organizations' outcomes in Serbia: Evidence from Cranet research 2015

Agneš Slavić, Nemanja Berber

slavica@ef.un.ac.rs, University of Novi Sad, Faculty of Economics,
Subotica, Republic of Serbia

berber@ef.un.ac.rs, University of Novi Sad, Faculty of Economics,
Subotica, Republic of Serbia

Abstract: The relation between employees' compensation and organizational outcomes is one of the most explored areas in human resource management (HRM) researches. Generally, it is accepted that the implementation of high performance working practice, which contains different forms of incentive compensation, leads to the higher level of organizational outcomes (financial-in terms of profitability, market share and sales; organizational-in terms of productivity, quality, and HRM outcomes-in terms of turnover, satisfaction, absenteeism, and engagement). These researches are usually based on the exploration of managerial compensation and profitability. On the other hand, there are fewer researches on the relations regarding the usage of performance-based pay for all categories of employees and organizational results. The aim of this research is to explore the differences between the levels of profitability and productivity in relation with the usage of different elements of performance-based pay for employees. The research was conducted on the basis of Cranet project results in the Republic of Serbia in 2015. The methodology of the research included the development of research hypotheses on the basis of past researches and HR theory on employees' compensation and implementation of several statistical techniques (descriptive statistics, Spearman's Rho correlation, ANOVA tests and Welch ANOVA test). Results indicate that there are positive relations between incentives and profitability and productivity of organizations in Serbia and statistically significant differences between the level of profitability and productivity regarding the usage of incentives for all categories of employees. Organizations that reward their employees with bonuses on individual and team level have higher level of organizational outcomes.

Keywords: human resource management, performance based pay, incentives, Cranet, Serbia.

JEL Classification codes: J 33, L25, M12, M52

1 INTRODUCTION

Human resource management and its main activities such as HR planning, staffing, training, career development, performance management, compensation and benefits, retirement, etc., are seen as a factor for gaining competitive advantage and organizational success (Wright, McMahan, and McWilliams 1994; Bowen and Ostroff 2004; Chadwick and Dabu 2009; Noe et al. 2012; Savaneviciene and Stankeviciute 2013; Radosevic et al. 2014; Albrecht et al. 2015). Although there are many evidences (theoretical and practical) of the positive relations between the HRM practices and organizational performances, it is important to emphasize

that HRM can achieve its main goal – to manage and develop people to achieve their goals and overall organizational effectiveness, only if it is implemented as strategic organizational process rather than poor administrative (Slavić and Berber 2013; Ananthram et al. 2013; Gurbuz and Mert 2011).

Among many HR activities, one that is of specific importance is compensation. Compensation as monetary and non-monetary rewards for employees is seen as important factor that is used to attract, motivate and retain employees (Fay and Thompson 2001, p. 213). Compensation system is consisted of three basic parts: basic pay, variable pay – incentives, and benefits. Among these, special importance in this research is dedicated to the incentive pay as a variable part of total compensation that is related to the performance of employees. Incentives are used to motivate employees to engage themselves in achieving their goals and work tasks. This part of the total compensation is variable because it varies in relation to the objectives and standards - organizational, group or individual goals. This way of rewarding emphasize the importance of the connection between employees' efforts and performance, on the one hand, and rewards, on the other. Incentive pay is seen as a primary way to encourage the desired behavior of members of the organization (Jansen et al. 2009, p. 59). The main goal of of incentive is an increase in productivity and the level of actual performance of employees, and to make a system of incentives effective, it should be based on the following assumptions:

- Individual workers differ from work teams in terms of the contribution to the organization, in terms of what they do and how they are performing their work activities.
- Organizational performances are largely dependent on individual and group performances.
- In order to attract, retain and motivate those employees who achieve high levels of performance and to achieve justice for all employees, organization should reward employees based on their performance (Martochioo 2009, p. 129).

Based on the above mentioned, the subject of the research is performance-based pay in terms of individual, team and organizational bonuses and their relation with organizational performances. The aim of this research is to explore the differences between the levels of profitability and productivity in relation with the usage of different elements of performance-based pay for employees. The research was conducted on the basis of Cranet project results in the Republic of Serbia in 2015. The methodology of the research included the development of research hypotheses and implementation of several statistical techniques (descriptive statistics, Spearman's Rho correlation, ANOVA tests and Welch ANOVA test).

2 LITERATURE REVIEW

Encouraging and motivating employees to improve their business performance is one of the most important tasks in contemporary organizations. There are still no ideal models or systems for stimulating employees, because what suits in one organization does not have to mean automatic implementation in others, since there are different factors such as sectors (e.g., food production and information technology), age, gender, education of employees, etc. that influence the adoption of different reward strategies. Motivation and performances are shaped based on the link between the effort and the reward and by the importance or valence of the reward to the person in question (Brewster et al. 2007).

The system of incentives can be viewed from different perspectives. According to one, which will be used in this paper, all the incentives can be divided into individual, group and organizational (Martochioo 2009, p. 132). Individual incentives include rewards to employees for their individual efforts and effects that are achieved during their work and goal achievement. Group incentives promote collegiality and cooperation among employees. Incentives at the level of organization relate to the entire organization, and these plans include rewarding of all employees in relation to organizational performance in the period from 3 months to 5 years (Martochioo 2009, p. 132). For the purpose of this research the authors explored the effects of incentive pay on organizational performances. One of the most cited works on this theme is the research of Huselid (1995) who evaluated the links between systems of High Performance Work Practices (HPWP) and firm performance. Results from a sample of 1000 firms indicated that HPWP, where incentive rewards are an important element, have statistically significant impact on employee outcomes measured through productivity and measures of corporate financial performances. Gerhart and Milkovich (1990) using longitudinal data on about 14,000 top and middle-level managers and 200 organizations; we found significant differences between organizations. Their results suggest that organizations tend to make different decisions about pay contingency, or variability, rather than about base pay. Findings indicate that contingent pay was associated with financial performance but base pay was not. Another research explored the effects of cash bonus systems in Taiwan's high-tech sector on firm performance. The results also showed that the bonus systems have statistically significant positive impacts on firm performances (Han and Shen, 2007). Similarly, Guest et al. (2003) explored the relationship between HRM practices and performances in 366 UK companies. They used a questionnaire with nine main areas of HRM: staffing; T&D; performance appraisal; financial flexibility; job design; communication; employment security and the internal labour market; single status and

harmonization; and quality. Inside financial flexibility part they proposed several questions on the usage of incentive pay methods (individual and team based incentives, and cash bonuses). Their results pointed that there is a strong association between HRM practices and productivity and financial performances. Authors from Serbia explored the relationship between incentive pay and the level of organizational performances. Based on the sample of 25 European countries from CRANET research in 2008/2010 period here have been detected a statistically significant differences between those organizations that offer incentive pay for their professional workers relative to those organizations that do not used that kind of pay, in terms of organizational performances (service quality, productivity, profitability and the rate of innovation). The results indicated that organizations that use bonus schemes achieved greater level of organizational outcomes (Štangl Šušnjar and Berber 2014). According to the results of previous researches on this theme, the authors proposed a research hypothesis:

H0: Organizations that use bonus schemes for their employees will have greater organizational performances measured by productivity and profitability than organizations that do not use bonus schemes.

The proposed hypothesis was tested through statistical analysis, according to the presented methodology.

3 METHODOLOGY AND DATA

In this research the authors used the methodology of CRANET research (www.cranet.org). Cranet is a network of scientific institutions from different countries that collect unique and mutually comparable data on the policies and practices of HRM. This network, which was founded in 1989, conducts the largest survey of HRM practice around the world, and has a current picture of the state of the practice in Member States. Coordination of activities is carried out by Centre of European HRM in Cranfield School of Management in the UK. Currently, the organization has about 40 members, not only from Europe. Network members are also Japan, Canada, India, USA, and so on. From the former Yugoslavia there were several members, from Slovenia - University of Ljubljana, Croatia - University of Zagreb and Serbia - University of Novi Sad - Faculty of Economics in Subotica (Lekovic et al. 2015). Faculty of Economics in Subotica conducted this research in Serbia for the second time. As the only member of the international scientific network in this country, Faculty of Economics in 2008 participated in Cranet project for the first time with 50 analyzed organizations. In the first half of 2015 the authors examined 158 organizations from the territory of Serbia. The answers to the questionnaire were given by HR managers or executives in organizations with

more than 50 employees (Lekovic et al. 2015). The research was conducted using a standardized questionnaire, which was translated into the languages of participating countries. The questionnaire has about 70 questions and covers the main activities of the HRM. The first part deals with the characteristics of HR department of the analyzed organizations. The second part of the questionnaire focuses on staffing practices. The third part deals with the issues of training and development of employees. The fourth part deals with compensation and benefits. The fifth part of the questionnaire analyzes the relationship between employers and employees and deals with various issues of communication with employees. The sixth part contains the basic organizational data. The seventh part refers to the data of the person who filled out the questionnaire. In the continuation of the text the authors presented the sample of organizations and the structure of the research.

Tab. 1: Structure of the sample according to the size of organization in Serbia (N=158)

Size of organization	2015	
	Frequency	Percent
1-249	95	60.1
250-1000	42	26.6
1000+	21	13.3
Total	158	100.0

Source: Authors' analysis based on CRANET data

According to the data from table 1 the largest share of the sample in Serbia in 2015 was SME sector, 60%. There are 27% of large organizations and 13% of very large, with more than 1000 employees.

Tab. 2: Structure of the sample according to the ownership of organizations in Serbia (N=158)

Ownership structure	2015	
	Frequency	Percent
Private	104	65.8
Public	53	33.5
Total	157	99.4
Missing	1	0.6
Total	158	100

Source: Authors' analysis based on CRANET data

Data from table 2 show that the sample of explored organizations in Serbia was consisted of public (34%) and private (66%) sector. Also, around 8% of analyzed organizations are from agriculture sector, 1/3 is from industry sector, and 63% of organizations are from service sector. The largest share of organizations from Serbian CRANET sample in 2015 is in the sector of food production, trade, telecommunication, and IT (Lekovic et al. 2015).

The research was conducted in two parts. The first part included the analysis of correlations between bonus schemes for employees (managers, professional and clerical workers) and organizational performances measured by productivity and profitability. Since the bonus schemes were coded as dummy variables for three categories of employees - managers,

professional and clerical workers (0=not used and 1=used), the authors recoded them into ordinal variable for all employees for each element of bonus schemes (0=not used, 1=used only for one group of employees, 2=used for two groups of employees and 3=used for all employees). Organizational performances are presented as ordinal variables (from 1=poor productivity/profitability to 5=superior productivity/profitability). The analysis was performed with SPSS V20 programme.

4 RESULTS AND DISCUSSION

The presented results and conclusions are defined after basic statistical analysis of responses received from 158 organizations in 2015. From table 4 there is evident the existence of correlations between incentives for employees and organizational performances. In case of profitability there are statistically significant positive weak correlations with individual pay for performance (IPFP), individual bonuses, team bonuses, and organizational bonuses. On the other hand, in the case of productivity only one statistically significant positive correlation with team bonuses was found.

Tab. 4: Correlation between performance based pay and organizational profitability and productivity in Serbia (N=158)

Spearman's rho		Bonus_individual	Bonus_team	Bonus_org	Rating of Profitability	Rating of Productivity
Bonus_individual	r _s	1,000				
	Sig. (2-tailed)	.				
Bonus_team	r _s	,669**	1,000			
	Sig. (2-tailed)	,000	.			
Bonus_org	r _s	,590**	,579**	1,000		
	Sig. (2-tailed)	,000	,000	.		
Rating of Profitability	r _s	,251**	,288**	,225**	1,000	
	Sig. (2-tailed)	,002	,000	,005	.	
Rating of Productivity	r _s	,104	,260**	,109	,653**	1,000
	Sig. (2-tailed)	,200	,001	,176	,000	.
**. Correlation is significant at the 0.01 level (2-tailed).						
*. Correlation is significant at the 0.05 level (2-tailed).						

Source: Authors' analysis based on CRANET data

The second part of the analysis obtained a research of the differences between organizations that use bonus schemes to a large extent in contrast to those that use them for only two or one category of employees or to those that do not use incentives at all (value 0) regarding the level of organizational profitability and productivity. The authors used Welch ANOVA test (instead ANOVA, since the homogeneity of variances was violated). According the data from table 5 it is obvious that there are statistically significant differences between organizations that use and not use individual bonuses for their employees (F=15,729, df=3, p=0,004) regarding the level of profitability. If organizations use individual bonuses for one, two or all groups of

employees, organizational profitability is higher (Mean from 3,68 to 3,62) than if they do not use this kind of bonuses at all (M=3,10).

Tab. 5: Welch Anova test – differences between the level of organizational profitability regarding the usage of individual bonuses in Serbia (N=158)

Rating of Profitability							
Individual bonuses	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
				Lower Bound	Upper Bound		
,00	3,10	,775	,100	2,90	3,30	2	5
1,00	3,68	,871	,156	3,36	4,00	2	5
2,00	3,63	1,065	,244	3,12	4,14	2	5
3,00	3,62	,936	,140	3,34	3,90	2	5
Total	3,43	,912	,073	3,29	3,58	2	5
Test of Homogeneity of Variances				Levene Statistic	df1	df2	Sig.
				3,356	3	151	,021
Welch ANOVA		Statistics ^a	df1	df2	Sig.		
		15,729	3	58,059	,004		

a. Asymptotically F distributed.

Source: Authors' analysis based on CRANET data

According to the data from table 6 we can conclude that there are statistically significant differences between organizations that use and not use team bonuses for their employees (F=7,049, df=3, p=0,000) regarding the level of profitability. If organizations use team bonuses for one, two or all groups of employees, organizational profitability is higher (Mean from 3,47 to 3,92) than if they do not use this kind of bonuses at all (M=3,16). The authors used ANOVA test since the homogeneity of variances was not violated.

Tab. 6: Anova test – differences between the level of organizational profitability regarding the usage of team bonuses in Serbia (N=158)

Rating of Profitability							
Team bonuses	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
				Lower Bound	Upper Bound		
,00	3,16	,871	,094	2,98	3,35	2	5
1,00	3,92	,759	,152	3,61	4,23	3	5
2,00	3,47	,964	,221	3,01	3,94	2	5
3,00	3,81	,849	,167	3,46	4,15	3	5
Total	3,43	,912	,073	3,29	3,58	2	5
Test of Homogeneity of Variances				Levene Statistic	df1	df2	Sig.
				,865	3	151	,461
ANOVA		Sum of Squares	df	Mean Square	F	Sig.	
Between Groups		15,729	3	5,243	7,049	,000	
Within Groups		112,309	151	,744			
Total		128,039	154				

Source: Authors' analysis based on CRANET data

For the exploration of the usage of organizational bonuses and profitability the authors used Welch ANOVA test (since the homogeneity of variances was violated here, too). According to the data from table 7 it is obvious that there are statistically significant differences between organizations that use and not use organizational bonuses for their employees (F=3,221, df=3,

p=0,032) regarding the level of profitability. If organizations use organizational bonuses for one, two or all groups of employees, organizational profitability is higher (Mean from 3,44 to 3,70) than if they do not use this kind of bonuses at all (M=3,21).

Tab. 7: Welch Anova test – differences between the level of organizational profitability regarding the usage of organizational bonuses in Serbia (N=158)

Rating of Profitability							
Organizational bonuses	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
				Lower Bound	Upper Bound		
,00	3,21	,769	,094	3,02	3,40	2	5
1,00	3,44	1,076	,190	3,05	3,83	2	5
2,00	3,67	,888	,256	3,10	4,23	2	5
3,00	3,70	,930	,140	3,42	3,99	2	5
Total	3,43	,912	,073	3,29	3,58	2	5
Test of Homogeneity of Variances				Levene Statistic	df1	df2	Sig.
				4,010	3	151	,009
Welch ANOVA		Statistics ^a	df1	df2	Sig.		
		3,221	3	42,170	,032		

a. Asymptotically F distributed.

Source: Authors' analysis based on CRANET data

According the data from table 8 we can conclude that there are statistically significant differences between organizations that use and not use individual bonuses for their employees (F=3,789, df=3, p=0,012) regarding the level of productivity. If organizations use individual bonuses for one, two or all groups of employees, organizational productivity is higher (Mean from 3,51 to 3,90) than if they do not use this kind of bonuses at all (M=3,38).

Tab. 8: Anova test – differences between the level of organizational productivity regarding the usage of individual bonuses Serbia (N=158)

Rating of Productivity							
Individual bonuses	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
				Lower Bound	Upper Bound		
,00	3,38	,687	,088	3,20	3,55	2	5
1,00	3,90	,790	,142	3,61	4,19	3	5
2,00	3,89	,963	,227	3,41	4,37	2	5
3,00	3,51	,944	,141	3,23	3,79	2	5
Total	3,58	,844	,068	3,45	3,71	2	5
Test of Homogeneity of Variances				Levene Statistic	df1	df2	Sig.
				2,449	3	151	,066
ANOVA		Sum of Squares	df	Mean Square	F	Sig.	
Between Groups		7,682	3	2,561	3,789	,012	
Within Groups		102,060	151	,676			
Total		109,742	154				

Source: Authors' analysis based on CRANET data

Similarly, there are statistically significant differences between organizations that use and not team bonuses for their employees (F=3,789, df=3, p=0,012) regarding the level of productivity. From table 9 we can see that if organizations use team bonuses for one, two or

all groups of employees, organizational productivity is higher (Mean from 4,08 to 3,69) than if they do not use this kind of bonuses at all (M=3,34).

Tab. 9: Anova test – differences between the level of organizational productivity regarding the usage of team bonuses Serbia (N=158)

Rating of Productivity							
Team bonuses	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
				Lower Bound	Upper Bound		
,00	3,34	,765	,083	3,18	3,51	2	5
1,00	4,08	,702	,140	3,79	4,37	3	5
2,00	3,84	,958	,220	3,38	4,30	2	5
3,00	3,69	,884	,173	3,34	4,05	2	5
Total	3,58	,844	,068	3,45	3,71	2	5
Test of Homogeneity of Variances				Levene Statistic	df1	df2	Sig.
				2,042	3	151	,110
ANOVA	Sum of Squares	df	Mean Square	F	Sig.		
Between Groups	12,731	3	4,244	6,606	,000		
Within Groups	97,011	151	,642				
Total	109,742	154					

Source: Authors' analysis based on CRANET data

For organizational bonuses no statistically significant differences between the levels of productivity were found.

From the obtained results it can be concluded that in the sample of 158 organizations in Serbia there are correlations between incentives and performances and that organizations which use individual, team and organizational bonuses for their employees gain higher level of profitability and productivity. The results of the research are in the line with the results of other similar researches and overall idea that HRM practices of rewarding employees with incentives in terms of bonus schemes have positive relations with organizational performances. The authors confirmed the proposed hypothesis.

5 CONCLUSION

Bonus schemes which provide cash payments to employees that are related to the performance of their organization, their team or themselves, or a combination of two or more of these (Armstrong 2007) are very important material motivator for all employees. Those are usually short-term rewards that vary with the performance of employees. In the literature of HRM there are numerous researches on the relation between bonuses and performances. Evidences show that the extent of the usage of performance based pay usually has positive impact on organizational turnover, productivity, profitability, etc. On the other hand, sometimes these relations are not so unambiguous, for example in the case of CEOs' compensation and firm performance (Berber et al. 2012). Surely, these relations are very

important for decision makers who are responsible for organizational results in terms of increasing employees' motivation for work. An adequate incentive system can be used to motivate employees to achieve their goals.

According to the theoretical review and the results of the analysis we can conclude that there are differences between organizations that use and not use individual, team, and organizational based bonuses for their employees regarding the level of productivity and profitability as organizational performances. Organizations that provide their employees with this kind of incentive variable pay have higher level of organizational productivity and profitability than organizations that do not use this kind of rewards.

At the end it is important to emphasize limitation of this study which lies in the usage of statistical methods for analysis. In this paper the authors did not measure the direct influence of the usage of bonus schemes on organizational performances, but they explored the differences regarding the usage of bonuses. Incorporation of several control variables (size, sector, ownership, union influence, etc.) and with the usage of different regression models this influence will be explored in more detailed manner.

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