MOTIVATIONAL POTENTIAL OF GROUP INCENTIVES AND THEIR RELATIONSHIP WITH ORGANIZATIONAL PERFORMANCE

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Abstract - This paper explores the prevalence of group cash and non-cash group incentives as well as a typical profile of a company that applies such incentives. Furthermore, differences in behaviors, attitudes and organizational success was compared between companies that apply at least type of employee financial participation and those that do not apply them at all. Based on the results of an empirical research undertaken on 42 medium-sized and large companies, it was revealed that employee financial participation schemes are mostly used for managers with profit-sharing schemes being most frequently used form of employee financial participation. Additionally, the majority of companies that apply employee financial participationis owned by private domestic capital, are established after 1990 and are limited liability companies. Finally, of companies reporting to apply employee financial participation, the majority is profitable, are more productive compared to competitors, experience more pleasant organizational climate and have lower absenteeism rates of managers and experts.

Index Terms - Employee financial participation, group incentives, profit-sharing, reward management.

I. INTRODUCTION

Group incentives have a relatively long history of influencing behaviors such as cooperation, information sharing and knowledge transfer, especially in the contexts where individual contribution or performance is difficult to assess. Rewards such as gain-sharing, profit-sharing and share ownership schemes (SOSs) were recognized as powerful motivational tools that facilitate ownership capitalism and strengthen relationship between employers and employees. In Croatia specifically, group rewards have not been particularly present in the relatively short national history even though the context for implementation of SOSs was favorable at the beginning of the transition from socialist to market economy. For that matter, we were interested in analyzing the incidence of group incentives in Croatian enterprises, as well as in profiling a typical enterprise that implements this type of transactional rewards. Finally, we aimed at finding out the motivation potential of group incentives as well as their influence on organization-wide outcomes such as productivity and financial performance. The results of a comprehensive empirical research undertaken in Croatian enterprises revealed findings that could be of interest to HR managers in general, and reward managers specifically.

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II. THEORETICAL BACKGROUND

Employee financial participation (EFP) is becoming part of the employment relationship of a rising number of employees in the industrialised world [1]. However, transition countries belong predominantly to the bottom 15 per cent in terms of their usage of EFP schemes [2], as a consequence of approximately only 20 years of human resource management (HRM) practices typical of free market economies. In fact, the adoption of EFP is likely to vary, depending on a number of contextual factors [3]. This debate is especially set in the context of national systems [4]. Numerous factors have been shown to influence the adoption of EFP. In The Cranfield Network on International Human Resource database, factors that came out as significant determinants for financial participation at company level were, for example, union density, number of employees, public limited company status, geographical market and policy regarding pay and benefits [5]. More recent research based on the same methodology, conducted in 2014 in Croatian context revealed that establishment age, profitability, proportion of annual payroll costs spent on training, the human resource (HR) director's years of service for the organisation and the HR director's years of service in human resource management were found to be the primary determinants of EFP in Croatia. [6]. of different group rewards usually discussed in the literature, three are the most commonly referred to. More precisely, gain-sharing, profit-sharing and employee share ownership (ESO) are among the most popular forms of motivating and rewarding work teams and groups. Gain-sharing is a group incentive scheme in which employees receive a bonus related to the performance of group. This may be based on cost saving or productivity improvements or some other measure [7]. Alternatively, it can be said that a gain-sharing scheme is a target-based,

profit-sharing scheme in which the target is generated endogenously by the previous output of workers [8]. Hence, gain-sharing is a forcing contract with a target based on historical or "base period" performance [8]. When it comes to its influence on behavioral and organizational outcomes, in the meta-analysis of 33 individual case studies of gain-sharing in the US, it was found that outcomes were improved in 67 of 91 per cent of cases [7]. Furthermore, another research found that the introduction of Scanlon-type gain-sharing was followed by a substantial reduction in both grievance rates (i.e. formal written complaints made by employees) and absenteeism rates [9]. This is an indication that gain-sharing is not only a financial incentive but also has the potential to improve relations between workers and managers [7], especially in terms of work atmosphere [10].

Profit-sharing involves linking some proportion of labour remuneration to company profitability; an incentive payment to be paid either in cash or in shares. It is by intention the least participatory of the various schemes on offer, entailing no necessary increase in employee participation in company decisions [11]. Profit-sharing is used to provide group incentive for increased productivity, to institute a flexible wage structure that reflects the company's actual economic position, to strengthen employees' economic security and identification with the company, to attract and retain workers more easily, to establish an equitable reward system promoting economic justice, or to educate individuals about the factors underlying business success and the capitalistic system [12].

Several potential beneficial effects of profit-sharing have been identified in the literature, e.g. higher motivation and commitment, lower absenteeism and labour turnover, greater identification of workers with the interest of their firm, contributes to more positive work atmosphere, reduced intra-firm conflict and labour management tension and improvements in work organization [5], [10], [12], [13]. Ideas that profit-sharing improves employee motivation and performance are known to have motivated legislation encouraging enterprises to set up PS schemes in several countries. A substantial proportion of private sector employees are currently covered by profit-sharing plans in a number of countries [14], some of which made companies obliged to introduce profit-sharing if certain circumstances are met such as the case with France [14].

There is considerable evidence that profit-sharing has a positive effect on economic performance [14]. Several studies have assessed corporate performance via income, investment, sales, that profit sharing firms generally perform better and grow faster than non-profit sharing firms [12]. It should be noted, though, that an individual company introducing profit-sharing will not automatically experience improved performance. Research has not clearly established the circumstances in which profit-sharing increases productivity, but there are indications that employee participation enhances the effectiveness of profit-sharing [7]. Productivity-enhancing effects of profit-sharing are likely to be greatest when employees are involved in decision-making as well [15].

Employee share ownership (ESO) schemes refer to arrangements that provide for broadly-based ownership of shares by employees in their own form. This can take different forms – from reserving a proportion of shares for all groups of employees to offering options and share ownership plans (ESOPs) [7]. While no economies have been fundamentally structured around employee ownership, many western industrialized economies have a substantial share of firms embodying these concepts in some form, and a number of transition economies are experimenting with employee ownership [16].

Increased equity participation by employees has attracted substantial interest for its potential to affect both economic outcomes (e.g., worker and firm performance) and social outcomes (e.g., wealth and income inequality) [16]. Most of the studies found that employee ownership had a positive effect on organizational commitment, especially if combined with employee participation [7]. Additionally, it was also found that ESO was associated with lower absenteeism rates in France [17] as well as in UK where, by using data on 52 engineering and metal working firms in 1983–84, the authors prove that firms with participation schemes had significantly lower average absenteeism and quit rates than firms without such schemes [18].

When it comes to influence on organizational outcomes such as productivity or profitability, results are not as straightforward as in case of profit-sharing schemes [5]. US evidence provides somewhat weak evidence that employee ownership may improve corporate performance, but stronger evidence that a combination of ESO and employee participation may contribute to improved performance [7]. Other studies revealed that there could be a statistically significant relationship between ESOP and productivity established, although it might not be immediate [19] or linear [20]. The evidence on the relationship between ESO and performance is weaker than in the case for profit- sharing. Most studies find evidence that ESOP improves employees' attitudes and behavior [7]. The results from these studies indicate employee ownership is linked to better outcomes on average but employee ownership clearly does not automatically improve worker and firm outcomes given that there are both positive and neutral findings. Additional research is needed to determine the conditions under

which employee ownership improves economicoutcomes, to examine worker and employer concerns and the trade-offs they are willing to make, and to explore the further potential of these systems [16]. In conclusion, it could be said that employee financial participation cannot only increase financial performance but also allow for efficient human resource management [5]. For that reason we were interested in finding out the state and perspectives of applying those schemes in Croatian context. Empirical findings based on the Cranfield Network on International Human Resource Management (CRANET) survey conducted in 2014 revealed that approximately only ten per cent of organisations in Croatia offer all EFP schemes (profit sharing, stock sharing and stock options) to all employees, and that on average, only around ten per cent of employees are given the opportunity to participate financially [6]. Main research goals of this study were to profile a typical company that adopts EFP schemes as well as to explore their motivational and organizational outcomes. Based on the research results, recommendations for HR managers could be given in order to encourage managers to embrace modern HR trends.

III. EMPIRICAL RESEARCH ON GROUP INCENTIVES IN CROATIA

This section is organized as follows: firstly, research methodology is explained in detail. Different parts of research instrument were explained, as well the sampling procedure and as well as sample characteristics. Secondly, research results were presented in different sections, i.e. general findings about presence of various group incentives with regard to employee categories, as well as specific findings about group incentives differences with regard to sample characteristics and association with outcomes expected from implementing these types of direct rewards. Finally, research limitations and recommendation for future research are given at the end of the section.

A. Research Methodology

Research instrument. A questionnaire that was designed for the purpose of conducting empirical research consisted of 46 questions in total. Most of the questions were closed-ended and referred to different group pay modalities as well as various attitudes, behavior-based indicators or organizational outcomes that were of interest as potential independent variables. Certain number of variables were treated as dummy variables (e.g. whether profit-sharing existed in organization or not), while majority of them was of nominal and continuous character for which respondents were asked to assess a variable by using Likert-type 5-point scale (1 = not important at all, 5 = most important). Other parts of questionnaire included different questions about company background and those were almost exclusively closed-ended questions (e.g. ownership type, profitability in the last three years, legal form of the company etc.), even though open-ended questions were present as well (e.g. year of establishment, industry, number of employees etc.). Majority of key questions about different reward management strategies were found or adapted in different journal articles as well as CIPD internal materials. The estimated time for fulfilling the questionnaire was approximately 25 to 30 minutes. Sample.The first step in designing our research was to select participants for the empirical research. As this empirical research is part of a larger project funded by the Croatian Science Foundations that aims at covering an entire population of Croatian companies, the emphasis was on large and medium-sized companies as those are expected to have more sophisticated HRM practices in general, and reward practices in specific. The population of Croatian companies (excluding banking and finance sector) that employ more than 100 employees was obtained through Croatian Chamber of Commerce (CCC) where it was revealed that approximately 1700 companies in Croatia employ more than 100 people, out of which 386 companies employ more than 250 people (labeled as “large companies”).

Data collection and analysis.After the questionnaire was created by using online resources and population was identified, an e-mail with cover letter from Project leader was sent to HRM departments of all companies in the CCC database in April 2017. Reminders were sent out in May and June, followed by personal reminders to HR managers of different project members using professional networks. At the beginning of writing the conference paper 42 questionnaires were gathered, however the collection phase still continues.

Company characteristic	Data distribution
Industry	Production – 50% Services – 50%
Establishment	Before 1990 – 44% After 1990 – 56%
Number of employees	Less than 250 – 47.6% More than 250 – 52.4%
Ownership structure	Private domestic – 47.6% Private foreign – 40.5% State-owned – 4.8% Mixed – 7.1%
Legal form	Joint stock company – 38% Limited liability company – 62%
Profitability in the last 5 years	Unprofitable – 4.8% Around or below average – 26.2% Profitable – 69%

Table I. Sample characteristics

As the data collection phase was concluded a statistical analysis of the primary data with SPSS 18.0 followed. The independent characteristics of the companies in the sample are given in a summary table below (Table I). As it can be seen from Table I, both manufacturing and service companies are equally represented in the sample (N=21 in both cases), as are companies that employ less than 250 (47.6%) and more than 250 people (52.4%). As for the establishment age, there are slightly younger companies, i.e. those founded after the dissolution of the Yugoslav Republic (56%). When it comes to ownership structure, the sample is comprised of 47.6% of private domestic companies, 40.5% of private foreign companies, while state-owned and companies with mixed ownership are underrepresented in the sample (11.9% combined). Limited liability companies form a majority in the sample (62%), while apart from joint stock companies (38%) we have no other legal form represented in the sample. When it comes to self-reported profitability in the last 5 years, 69% of the companies reported being profitable, one quarter of them were around or below average, while only 5% reported they were unprofitable.

B. Research Results

The first step in analyzing data was exploring prevalence of different group rewards in general and with regard to different employee categories, i.e. managers, experts and other employees. Results are shown in Table II.

Type of group incentive	% of companies applying for different categories of employees		
	Managers	Experts	Other
Gain-sharing	7.1	7.1	4.8
Profit-sharing	26.2	7.1	4.8
ESOP	7.1	7.1	9.5
Share options	9.5	2.4	2.4
Group recognition	31.0	35.7	40.5
None of the above	33.0	45.2	40.5
Group incentives in general	38,1		

Table II. The prevalence of group incentives with regard to different employee categories

The research revealed that, at the level of different employee categories, profit-sharing is the most frequently used group cash reward, and is applied in 26.2% cases for managers, with additional 7% and 5% of cases for both experts and other employees, respectively. Other cash rewards do not seem to be as prevalent as profit-sharing (or applied at all), since was observed in less than 10% of cases for employee categories. Group recognition, as the only non-cash group reward analyzed in the research, seems to be very popular among companies, as it was used in 31% of companies for managers, 35.7% for experts, and 40.5% for other employees. Interestingly, in 45.2% of cases, HRM managers reported none of the offered group incentives was used to motivated experts, as well as in 40.5% of cases for other employees, and surprisingly, in one third of cases for managers as well. Overall, when the whole sample was analyzed, 38.1% of sampled companies applied at least one cash group reward (CGR) for at least one category of employees. Next, we were interested to explore characteristics of companies that apply cash group incentives, i.e. to analyze their prevalence among different sample subgroups as well as to test differences among sample characteristics and whether cash group incentives were applied or not (dummy variable). Results are shown in table III.

Company characteristic	Data distribution
Industry	Production – 56.25% Services – 43.75%
Establishment	Before 1990 – 40% After 1990 – 60%
Number of employees	Less than 250 – 50% More than 250 – 50%
Ownership structure	Private domestic – 56.25% Private foreign – 37.50% State-owned – 0% Mixed – 6.25%
Legal form	Joint stock company – 37.50% Limited liability company – 62.50%
Profitability in the last 5 years	Unprofitable – 0% Around or below average – 18.75% Profitable – 81.25%

Table III. Distribution of companies applying group incentives with regard to company characteristics

At the level of descriptive statistics, CGR was mostly found in younger companies (those established after 1990), was equally represented in both above and below 250-employees companies, was found more in manufacturing compared to service companies, more in private domestic compared to private foreign companies and more in average to above average companies in terms of profitability (compared to those that do not apply CGR and have been mostly unprofitable or on the verge of profitability), and finally, more in limited liability companies. However, no statistically significant differences were found for the above mentioned independent characteristics of companies in the sample after Chi-square test have been conducted. Finally, we were interested in finding out whether there were any differences in different motivational and organizational outcomes between companies that apply and do not apply CGR. Outcomes that were chosen for this research were:

organizational climate, productivity compared to competitors, rise of productivity in the last three years, attracting, problems with retaining and engaging employees and, finally, rates of absenteeism. Differences are shown in table IV.At the level of descriptive statistics, organizational climate was found o be more positive in companies that apply CGR ($\bar{x}$ = 4.06) compared to those that do not apply any form of CGR ($\bar{x}$ = 3.65). Additionally, companies that apply CGR compared their productivity relative to those of competitors more favorably ($\bar{x}$ = 3.93) than companies without CGR ($\bar{x}$ = 3.34), while the assessment of the productivity rise in the last three years was found to be almost equal in both subsamples (mean value approximately 3.80). It should be noted, though, that no statistically significant differences were revealed after performing non-parametric tests. Finally, behavioral outcomes such as attracting, retaining and engaging employees generally pointed towards positive figures i.e. no substantive problems in what is often cited as the general aim of reward system in general. As for the absenteeism rates, lower rates for managers and experts were more frequently reported in companies that apply CGR.

Motivational and organizational outcome	Subsample averages and/or statistical tests
Organizational climate	- FP = 3.65 + FP = 4.06 No sig.diff. (Mann-Whitney test)
Productivity compared to competitors	- FP = 3.34 + FP = 3.93 No sig.diff. (Mann-Whitney test)
Productivity in the last three years	- FP = 3.84 + FP = 3.81 No sig.diff. (Mann-Whitney test)
Attracting, retaining & engaging employees	No sig.diff. (Chi-square test)
Absenteeism	No sig.diff. (Chi-square test)

Table IV. Differences in different motivational and organizational outcomes between companies that apply and do not apply cash group rewards

C. Research limitations and recommendations for future research

The main limitation of this research is the cross-sectionality of data so future research should aim at gathering longitudinal data in order to establish causal relations among different variables. Additionally, the sample consists of only 42 companies so representativeness might be lower than it was initially aimed for. In future, researchers should try to cover a higher percentage of population in order to be able to generalize research findings. Finally, the questionnaire was filled out by one person only, that is, HR manager which implies the response bias and could be taken into account in future research by including more than one respondent (e.g., higher level managers). More importantly, the questionnaire could be distributed personally and be accompanied by an interview. Finally, additional, independent data could be impaired with data gathered by cross-sectional research, i.e. financial indicators from public reports which would add more strength to findings and avoid response bias in questions that referred to financial and organizational performance of companies in the sample.

CONCLUSION

After analyzing results of the empirical research, several important conclusions can be drawn and serve as guiding for reward managers. Firstly, it is indicative that of all companies in the sample that use group incentives to motivate their employees, 81.25% of them reported their business to be profitable. Obviously, the implication could be that application of group incentives results in greater profitability but, also, that profitable companies decide more frequently to apply such schemes. Secondly, even though no statistically significant differences were detected (probably as a result of a smaller number of participants in the sample), the descriptive indicators point to the fact that in the companies applying group incentives, organizational climate have a tendency to be more positive, while lower absenteeism rates for managers and experts tend to be more frequently reported in those companies as well. All previously mentioned facts imply a great motivational potential that application of group incentives have on conducting business in these companies. Furthermore, it has been noted that group incentives are usually applied for managers, especially profit-sharing schemes and stock options; in case of experts none of the group rewards are dominantly used while for other categories of employees ESOP is the only one standing out. Surprisingly, cash group incentives are dominantly used in private domestic companies compared to private foreign-owned companies. We were expecting different results as group rewards in general, and employee financial participation has had a long tradition in the EU implying that foreign companies are expected to implement those HRM practices to their subsidiaries in Croatia as well.

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