

# Salary administration as part of employee incentive system at industrial enterprises

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**Abstract.** The article analyses the financial staff incentives at industrial enterprises. The paper concludes that the incentive system should be developed taking into account the developed staff motivation. The only efficient target of influence is the existing staff motivation components. A 3-element employee incentive framework for industrial enterprises is suggested. The article presents the critical analysis of the existing payroll systems of several industrial enterprises, elicits the common flaws of the incentive payments, and develops requirements for such systems. The paper also provides an industrial enterprise needs matrix and an incentive payment types matrix required to build up a rational monetary staff incentive system. These matrices can be adapted for any industrial enterprise with regard to its long-term objectives.

## 1 Introduction

The present state of the Russian industry can be described as a state of a systemic crisis caused by multiple international, national, political, social, and economic factors. One of them is the minor involvement of the Russian industry in the innovative processes.

Meanwhile, along with R&D and technology the innovations developed at the industrial enterprises should affect the enterprise management system [1], with human resource and staff motivation management systems in particular.

Human resource management should be viewed as a special form of management which deliberately impacts the staff using a specific apparatus of means and methods. The framework of methods is shaped by the fact that the major aim of the staff involved in production is satisfying their personal needs in the long term while being employed at a certain enterprise. By controlling the staff behavior, the management develops a system of motivational drivers, working to boost the productivity and, ultimately, the production performance [2].

## 2 Analysis of the notions of motivation and staff incentives. Literature review

Quite a lot of theories of motivation were developed over the XX century. Even the shallow analysis of these theories allows for the conclusion that they are based on either one of two groups of factors, i.e. the system of human needs, prompting the human actions (content theories), or the peculiarities of human behavior in

certain conditions to achieve some particular aims (process theories) [3].

Quite an arguable [4] theory of human motivation, though the most widely known one and the one applicable to the industrial enterprises [5], Maslow hierarchy of needs, features physiological, safety, love and belonging, esteem and self-actualization needs [6], which are not always in direct correlation with work activities.

Herzberg's Two Factor Theory was widely used in behavioral analysis in industry, both nationally and internationally [7]. According to F. Herzberg the working conditions existing in a company create the basis for the positive perception of labor. The strive for self-actualization, in its turn, provides for the development of an employee's system of motives, determining the performance [8]. In our opinion, such way of influencing the employee motivation is particularly valid for the innovative industrial enterprises, which should strive to boost the creative component in the work of their highly-qualified staff.

At the same time, several experiments showed that enriching labor caused a dramatic increase in the levels of the staff satisfaction with their work, boosting their internal motivation, decreasing absenteeism and personnel turnover, though it did not result in improved performance. This result was particularly due to the most of the employees approaching their work as an instrument to achieve their personal aims. When the employees found out that enriching the labor does not entail the increase in salary and career promotion, the effect of the implemented changes deteriorated considerably [9].

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Employers should understand that the system of employee motivation should be based on their personal needs, most of which are connected with the spheres of life other than work. The external employer's impact on the internal employee motivation, however elaborate, does not always result in achieving the main aim, which is the improved performance.

The most famous theories of staff motivation indicate the direct connection between the management process and the personal mental condition of a member of staff. This, in its turn, underlies the necessity to coordinate the aims of the company management and the motivation of the staff [2]. This coordination should be provided for by the employer's stimulation of the required employee behavior.

L. Mikhailova is right to mention that the mechanisms of staff *stimulation* and motivation are seriously different, while these notions are often unreasonably mixed up or substituted with one another. This results in the lack of efficiency of the motivation and stimulation systems [10].

Some authors either consider these notions as synonymous; or the two types of one and the same process [11]; or address motivation as one of the stimulation methods [12], which is quite difficult to agree with [13]. For instance, A. Kibanov views motivation as a process of the long-term influence on the employees aimed at changing their value systems, aims, and interests to develop their work potential based on that; while he understands stimulation as a tactics used to resolve the issue, i.e. orientation to the existing structure of the employees' values and interests and the efficient implementation of the employees' potential [14].

According to M. H. Mescon "motivation is the process of stimulating oneself and others for the activity aimed at achieving particular and general aims of an organization" [15].

In our opinion, labor motivation and stimulation are obviously interconnected, though different in their nature. Moreover, the fact that motivation describes the attitudes of a person, while stimulation is about the external impact onto a person, is not the only difference.

Labor motivation cannot be viewed as a process or mechanism, it should be perceived as a system of

personal attitudes, based on one's needs, expressed in the attitude towards labor.

### 3 Employee incentive system of a modern industrial enterprise

Equations should be centred and should be numbered with the number on the right-hand side here exist different methods an employer may use to influence the employees' motivation, thus developing the attitude to work required in the short or long term. Such impact is the employee behavior stimulation.

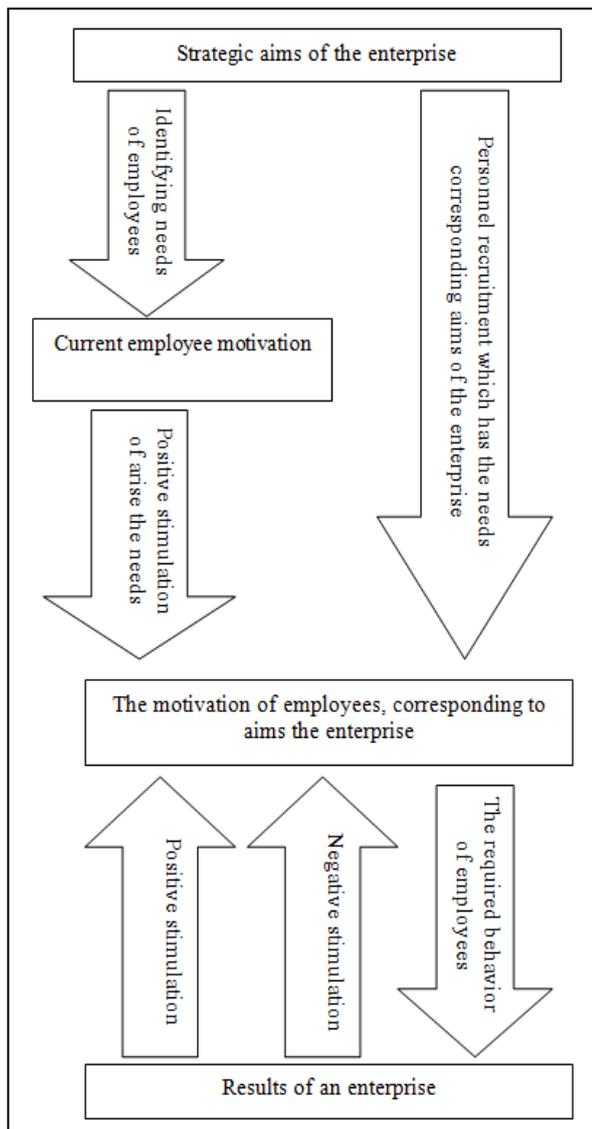
It is worth mentioning again that any employee's with very few exceptions primary concern is their immediate needs, and not boosting the performance. This is a factor the employers have to consider.

So, the employee incentive system should be developed taking into account the existing employee motivation. Only the aspirations already present in the system of motivation can be efficiently impacted. If there is none, any forms of stimulation will fail to produce the necessary impact on the employee behavior in the framework of production

For instance, it is impossible to seek innovative approach to the work from an employee having no such developed motivation. In this case, one might use, for instance, professional re-training to motivate the staff demonstrate the required behavior [16], and only after that stimulate this behavior, by influencing the newly emerged motives.

In other words, the stimulation /incentive/ system should encompass three elements: employee motivation identification, development of the employees' needs, related to the company aims, and, basically, the stimulation of behavior aimed at the realization of these needs in the company interests (Fig. 1).

Furthermore, developing a community of employees with the motivation matching the company aims can be done in two ways: by stimulating the need for the work to emerge in the employees, or by high-quality selection of staff already having the necessary motivational affirmations.



**Fig. 1.** The employee incentive system of an industrial enterprises.

It was mentioned hereinabove that stimulation is often understood as exclusively positive influence on the employees [2].

It is known that a *stimulus* means “an incentive, a push” [17]. We regard the employee liability or other modes of coercion in the cases when the staff fails to fulfill the employer’s requirements, as one of such reasons. We suggest calling it *negative stimulation*.

At the same time, S. Ozhegov and N. Shvedova suggest understanding *stimulus* as “an interest in doing something” in the cases, connected with certain “development” [17].

In other words, to develop the needs required for the strategic development of the company in the employees, employers should use positive financial and non-financial motivation. Developing the employee needs related to the company aims with coercion is quite difficult.

At the same time, stimulating the staff behaviors aimed at achieving the performance indices and boosting performance, can be both positive and negative.

#### 4 Flaws of the existing financial motivation system and suggestions on their improvement

Online references will be linked to their original source, only if possible. To enable this linking extra care should be taken when preparing reference lists. Despite that many companies use non-financial incentives, payroll ones still play the main role in the staff behavior stimulation system.

The analysis of the payroll and other bylaws of several industrial enterprises identified certain features, illustrating the flaws of the financial incentive systems.

Most of the payroll systems are not aimed at the main idea of stimulation, meaning that they lack a correlation between the salary and the achievement of the company strategic goals, while some of the goals are just set incorrectly. The stress is mostly made on the fulfillment of the current performance indices, which does not reflect the connection to the strategic aims.

For instance, the main aims of a major Russian metallurgical enterprise are as follows: “meeting the rising expectations of the consumers in full, balanced accounting for the shareholders’ requirements, the interests of the staff and the society in general, bringing down the enterprise-induced environmental load, emergencies and accidents prevention”. Some of the quoted aims can hardly be classified as strategic. Besides, the Compensation and Benefits Policy and other bylaws of the company contain no actual stimuli aimed at building up the staff motivation to achieve these aims. The size of compensations largely depends on the current outcomes, particularly, the volume of work, without regard to its quality, innovative development, health and safety.

A matter of the largest and unresolved discussions is balancing the three groups of interests, i.e. societal, collective, and personal, in the employee motivation system framework [3].

The example above shows that the company aims at balancing corporate interests with the interests of the staff and the work conditions; while none of the bylaws explains the way this aim shall be achieved. For instance, no correlation between the salary and the company profit is established.

The salary structure used at almost all of the enterprises does not do anything to stimulate the necessary employee behavior. The salary in general, not some part of it usually called *incentive payments* should perform a stimulating function.

Putting excessive stress on the variable salary component, bonuses, interest, and other incentives can result in pushing the employees to achieve short-term results without relating them to the strategic aims.

The payroll system is mostly aimed at the activation of the motives existing in the employees, and not building up the motivation required for the company to achieve its strategic aims. Such system can be efficient only provided that the staff is thoroughly selected and already has the necessary motivation, which is very complicated to achieve.

The analysis of several compensation and benefits policies indicates that the company employs an irrational approach to the development of certain stimuli, i.e. the bonus payment criteria.

According to A. Kopytova, “the more constituents an incentive system of the company features, the more loyal the staff is going to be loyal to the company, value their positions, and perform the work better” [18]. Along with that the author brings out the direct dependence of the staff behavior stimulation costs on the number of the stimulation criteria.

While we agree with this view in general, it is worth mentioning that this approach is hardly valid for the payroll incentives.

Employers, with only few exceptions, have limited budget for bonuses and other incentive payments. Consequently, the increase in the number of the employee stimulation criteria diminishes the effect and the importance of every one of them.

In many cases the incentive payments system is impractical, as it contains many stimuli having no actual impact on the employee motivation.

The analysis of the needs identification matrix suggested by A. Kopytova, and the possibilities for the implementation of the rational employee implementation system at the enterprise [18] allowed suggesting a matrix of stimuli, featured in an enterprise payroll system.

The first matrix (Table 1) aims at forming the employee behavior stimulation in relation to the long-term tasks of the company. Naturally, each organization has its own list of such tasks and profiles. Moreover, such matrix allows setting the priority short-term tasks and changing them depending on the changes in the long-term tasks and the current situations. For instance when the dramatic innovative development of the enterprise is required, promoting the qualifications of the staff shall become a matter of the primary importance.

**Table 1.** The matrix of needs of an industrial enterprises.

The long-term task	The direction of the implementation of tasks	The current need
Increased productivity	Increased intensity of labor	Yes
	Improving product quality	Yes
	development of new technologies and equipment	Yes
	Rationalization proposals	No
Human resource development	Stability of the staff	Yes
	Fight against absenteeism	Yes
	Staff development	Yes
Safety	Compliance with safety and health requirements	No

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The second matrix (Table 2), in its turn, allows characterizing certain incentive payments, aimed at the implementation of the current tasks of the company. The matrix can serve as a basis to forecast the efficiency of certain incentive payments depending on the target staff and the available budget.

In our opinion, if an company is interested in special stimulation of certain groups of employees, quite limited in terms of their size, for instance, the staff involved in innovative activity, a special incentive system should be developed for them, instead of just introducing additional incentives on top of the existing ones.

The lack of differentiation of the incentive systems depending on the tasks fulfilled by the employees is one of the issues of human resource management at modern industrial enterprises.

An employer will also be armed to make a conclusion that certain payments, though meant for all of the employees, will not be successful, as the budget allocated for them is limited.

Incentive payments, which the employees are not able to earn, or which, on the contrary, require almost no effort to gain and have no considerable material form, can have negative impact on the employee behavior.

We reckon that the payroll system should not feature incentive payments for every possible occasion, otherwise the employees shall think any their actions require additional payment.

**Table 2.** The matrix of types (criteria) incentive payments.

The direction of the implementation of tasks	Types (criteria) payments	The proportion of staff, for which is intended the payment
Increased intensity of labor	Implementation of the plan	70%
	Increased labor standards	60%
	Execution of works of different qualifications	5%
Improving product quality	Absence of spoilage	50%
	Execution of works requiring high qualification	20%
Development of new	Participation in the implementation process of	1%

The direction of the implementation of tasks	Types (criteria) payments	The proportion of staff, for which is intended the payment
technologies and equipment	equipment	
	Work on the modern equipment	10%
Stability of the staff	Continuous length of service in the enterprise	100%
Fight against absenteeism	Lack of absenteeism and tardiness	100%
	Lack of absence from work for valid reasons	100%
Staff development	Refresher training without interrupting production	25%
	Additional professional training	5%

The efficiency of payroll in terms of stimulation depends on the conditions it is implemented in.

F. Herzberg stated that the flaws of the motivation system may be caused by the unfair or poorly organized working conditions [19].

Companies should use the incentive payment criteria, which allow for the realization of various abilities of the employees, as well as allowing all of the employees to seek these payments based on their basic qualities, i.e. the level of education, work experience, the complexity of the work performed.

The quantitative evaluation of the performance indices, which should be planned and, more importantly, controlled outside the units, is preferable. A system of objective and immediate evaluation of the staff performance should be in place [18].

The duties of the members of staff should be clearly defined based on the position description and other documents. Consequently, the payment incentives rewarding the achievement of individual outcomes should be based on the clear performance of an employee's duties, being independent of the subjective opinion of the head of the unit.

Finally, the compensation system, including the incentive payments, should be as transparent, open, and clear as possible. While working on this article, we found out that at most of the enterprises the policies and bylaws related to compensation are for official use only, being unavailable for the usual members of staff. They are not published on the company web-site, or posted at the information stands. With that in place one can hardly talk about the stimulating function of the salary.

## 5 Conclusions

All of the existing staff motivation theories indicate the connection between the management process and the psychological state of an individual, or, in other words, the aims of the company and the needs of the employees. Thus, the stimulation system should be developed with

regard to the existing employee motivation, as well as the need for balancing three groups of interests, i.e. those of the staff, management, and the company on the whole.

Any employee stimulation, including that by means of salary, should be based on the aims of the company classified into current (short-term) and strategic (long-term).

The payroll system of an industrial enterprise should meet certain requirements.

Firstly, the incentive payment system is defined by the correlation between salary and the achieved strategic aims of the company.

Secondly, the compensation system should balance the fixed and incentive components. The global trend in the development of the compensation system is "the increase in the share of the fixed component of the salary, which results in increased compensation system reliability and the growing assurance of staff in the guaranteed income" [20].

Thirdly, the employee behavior stimulation system should be rational, meaning be based on the direct correlation between the company requirements, the available budget, the corresponding financial stimuli, and, finally, the needs of the employees.

The matrix of the needs of industrial enterprises and the matrix of the incentive payments types (criteria) do not present the exclusive lists of either notions and should be adapted for a certain enterprise with regard to its long-term development aims.

Finally, the prerequisites for the financial stimulation system efficiency are fairness, openness and transparency of the compensation system.

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