

Reward system design supportive to human capital stabilization in a company

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Abstract. The stabilization of human capital at the enterprise level presupposes the systematic and effective use of human resources management tools. One of these tools is the employees' reward system. The paper in its theoretical contribution defines the conditions under which rewarding serves as an instrument for stabilizing human capital in an enterprise. Consequently, on the basis of its own survey data, the paper contains analysis of reward systems in companies in Slovakia in order to describe their development, current status and trends in the given context. Summary conclusions contains findings, that despite the significant and positive shift in several areas of remuneration systems in companies in Slovakia, the situation is still not optimal and offers room for further development.

1 Introduction

The starting point for addressing the issue of stabilizing human capital in an enterprise is to understand what keeps people at work. According to several authors, one of the decisive factors is the economic factors, namely the reward system. Remuneration can thus be seen as a critical function of human resource management, which has an impact on the individual's motivation to enter, learn and stay in society [12]. It is also an important tool for maintaining a high level of individual performance and promoting employee engagement [17, 21]. The paper therefore points out how the reward system should be designed to support the stabilization of human capital in the company and consequently examines what incentive approaches are used by companies in Slovakia. Based on the results of the research, the paper contains conclusions with summary evaluations that characterize the development and current trends in reward systems in Slovakia in the context of the stabilization of human capital in the company.

2 Literature review

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Rewarding, as well as other human resource management functions, is subject to continuous development. The most recent changes in this area are summarized in Table 1 [4].

Table 1 Development in rewarding

Historical approach	Contemporary approach
Reactive wages	Strategic wages
Outlined reward systems	Integrated reward systems (into HRM systems)
Supporting business of the company	Interactive to the company strategy, employees' needs and conditions of the environment
Low flexibility, mechanistic, complicated reward system	Organic, variable, relatively symple in process of rewarding
Isolated initiatives	Integrated reward management
Unrealistic expectations	New realismus
Orientation to financial rewarding	Orientation to total compensation, engagement and lojalty
Administrative managing of wages	Wages reflecting entrepreneurship
Byrocracy in reward system	Flexible reward system
Hierarchical structures	Orientation to continuous developemnt
Performance based rewarding	Contribution based rewarading
Priority in inner fairness	Market orientation
Rewarding related to the content of the job	Rewarding related to people
The best „practice“ principle	Adjustment to characteristics and culture of the company
Managing by HR department	Involment of line managers into rewarding
Multiple grade systems	Wide range systems
Planning	Delivering, realization
Top down information flow	Communication and employee involvment
„Big bang“ style changes	Evolutionary changes

Source: own proceedings [4]

Cotemporary rewarding can therefore be characterized by features such as complexity, flexibility and a systemic approach. Companies benefit from a wide range of monetary, non-monetary benefits and employee benefits to create an integrated and mutually supportive set of tools that, when combined, will have a much stronger and longer-term impact on individual, team and organizational efficiency [3]. As part of their reward, employees themselves are perceived as partners with which they communicate openly and actively participate in reward processes [18]. There is a clear shift from situational responses to market and internal pressures and a shift towards reward not only in the human resources management strategy but also in the business strategy. Compatibility with culture and market orientation are also a prerequisite for successful reward system. Contemporary reward systems are evolving along with business, through evolutionary changes [6].

Schuster and Zingheim [23] introduce into contemporary theory the the concept of “New Pay”. Its basic principles were defined as follows:

- employees are a source of competitiveness and efficiency of the company,
- communication with workers is crucial to the success of rewarding;
- the reward system is designed to reward results and work behavior in line with the company's objectives;
- variable (risky) part of rewarding is introduced into the reward system;

- rewarding is about employee relations, employees have the right to determine whether they are satisfied with the values, culture and reward system in the company,
- rewarding is understood as an element of the whole management process, it can be a positive force of organizational change,
- direct and indirect financial rewards are not separate and independent;
- emphasizing the importance of both team and individual rewards in new reward systems;
- partnership and participation as important elements in rewarding.

Rewarding of employees can now be seen as a strategic tool of human resources management, linked to the goals, strategy and culture of the company [10]. Trevor [19] sees the strategic approach to remuneration as *"a means of improving business performance and ensuring a competitive advantage by aligning reward strategies, systems, policies and practices with the business strategy."* Financial reward no longer represents only the cost of hiring the necessary workforce, but is a means of reconciling the unique and inimitable asset of the enterprise - its employees - with the strategic direction of the enterprise '. Also, according to Brown [5], strategic reward is a way of thinking that links reward practices to business goals, as well as employee values and needs, which are critical to achieving business goals.

Taking reward as a strategic tool of human resources management in a company therefore means to see it as an integrating and innovative process that can support meeting the needs of the company and its employees, making it an important tool for stabilizing human capital in the company. However, emphasis should be placed on rewarding of the right things, which are valued and perceived by the company as important [15]. In this way, through a reward system, it can spread the message of what it values and considers to be value. Armstrong [3] stresses that the impact of the reward strategy on staff performance can only be maximized by linking it to the human resources development strategy and in particular to the recruitment strategy. Rewarding is no longer an isolated activity, but integrates with other human resource management processes and functions. As a human resource management function, it has become an increasingly organic, flexible process that reflects the business, rewards individual employees' contribution to the business and is increasingly geared to their lateral development [19].

The contemporary reward system is therefore determined by the business strategy and is intended to ensure that remuneration is managed in favor of the business, in line with its direction and objectives. In this context, Armstrong [4] sets out the main objectives in reward management:

- supporting the achievement of business goals through talented and committed people;
- rewarding people according to the value they create, that is, differentiation in rewarding of individuals according to the extent to which they meet the company's expectations;
- defining the desired behavior and outcomes to define performance expectations.
- promoting high performance, where the remuneration system should ensure that high performance is recognized, valued and supported;
- promoting and developing a corporate culture, ie interconnecting rewards with behaviors that are consistent with the company's value orientation.

Such an approach places great demands on the management of enterprises and, in particular, on their personnel managers, who have to cope professionally with the creation and functioning of reward systems, as otherwise the potential offered by this area of human resources management remains fully unused [14]. Rewarding is a complex and demanding task. As Fempel and Zander [8] point out, *"the perfection of rewards systems is in practice limited by their progressively increasing complexity. This limits operationality and transparency, which means that reward systems achieve their objectives only to a limited extent."*

Contemporary rewarding often implicates and considers progressive and holistic approach dealing with the concept of so-called total compensation. Such rewarding, according to Dvořák [7], involves linking wages for work done with various forms of non-financial recognition and other human resource management tools. Some authors talk about the three main categories of rewards that co-create the total compensation of external, internal and social [22,13, 20]. Essentially, external rewards consist of tangible benefits, including pay, career development opportunities and a reasonable workload, while internal rewards are intangible forms of appreciation, such as the ability to participate in job definition, meaningfulness and collaborative support. Social rewards include those derived from positive social interaction in the workplace, such as the use of supportive relationships with colleagues and superiors [1]. Also, according to Peluso [17], cash rewards are a necessary but insufficient condition for the development of an engaged workforce, therefore the concept of total compensation should also include non-monetary rewards, such as career opportunities, a supportive working environment that allows employees to balance personal and professional spheres. Lyons and Ben-Ora [11] explain total compensation system using four components:

1. basic wage and variable components,
2. various types of contributions in cash - health care contributions, retirement benefits, savings, including additional days off;
3. education and development opportunities, such as: career management, talent management, succession planning, development programs, etc.,
4. a working environment that includes intangible elements such as corporate culture, leadership styles, performance promotion, or work-life balance.

Several research studies dealt with the impact of total pay on employee behavior and performance. These confirmed the positive link between the total compensation, employee performance and improved business performance [16]. The concept of total compensation can therefore serve as a source of competitive advantage for businesses, allowing them to respond more flexibly to internal changes and align employee performance with business objectives [17], since engaging and combining different forms of pay is a source of overlapping and mutually reinforcing effects on employee performance [9].

3 Research design and methodology

These knowledge in theoretical sources became the basis of the research focused on the reward systems used in companies in Slovakia. The main objective was to assess their development and contemporary situation in the context of the instrument of stabilization of human capital in the company. Research itself addressed a number of research questions: what is the degree to which a strategic approach to rewarding is used; what is the impact of individual subject on the design of reward systems and their implementation; what is the impact of trade unions on the rewarding employees; what is the use of the 'total compensation' principle, at what level the employee's wage is determined; which of the managers and to what extent they are involved in deciding the individual's wage; what is the importance and time-consuming nature of reward system within HRM; which factors affect the level of wages, which methods of assessing the reward system are used; what are the key issues in contemporary reward systems and the reasons for their adjustment; in companies in Slovakia.

In addition to general methods of scientific research, a questionnaire survey was used as a basic tool for data collection. Data collection was carried out in the period of 2019, using simple random sampling and the units of sampling were companies operating in Slovakia. A total of 148 companies were included in the research. The sample of companies was characterized in terms of size, legal form, affiliation to the sector. However, the specific structure of the sample of enterprises is not given due to the limited scope of the contribution.

The obtained data were then evaluated using mathematical-statistical methods. At the same time, the current survey followed a similarly focused regional survey conducted in 2006 and an international survey conducted within the CRANET research network in 2013, focusing more on the HRM functions. This made it possible not only to evaluate the development and to identify the basic trends of reward systems in companies in Slovakia, but also to monitor their comparison in the international context.

4 Research results and discussion

This part of the paper presents and interprets the results obtained from a survey in companies in Slovakia focused on their reward systems. It focuses only on selected aspects of the reward system that can be considered essential in the context of the stabilization of human capital. These include assessing the use of the strategic approach to reward system design- formulating strategy, developing and implementing the reward system, the degree of influence of individual entities on the creation of the reward system, applying a holistic approach to reward - the concept of 'total compensation'. In conclusion, the summary evaluation formulates also other findings characterizing the development and current trends in the reward systems of companies in Slovakia.

The first of the areas examined was the assessment of the use of the strategic approach to rewarding. The results of the survey suggest that at present 70% of companies in Slovakia in the creation of reward systems are based on their own reward strategy, the definition of which is predominantly within the competence of top management in cooperation with personnel departments. Compared to the past (2006), there has been a clear increase in the use of formalized reward strategies (14%) and a decrease in the number of companies that do not create their own reward strategies (21%). (Table 2).

Table 2 The form of reward strategy in Slovak companies

Rewarding strategy	2006	2019
Formal design/documentation	56%	70%
Unformal	23%	23%
No strategy	21%	7%

Source: own proceedings

Most often, the companies have defined reward priorities and targets in their reward strategies; reward system components; attitude to competition; responsibility for individual parts of the reward system. It is also interesting that almost three quarters of the companies surveyed (71%) report that they do not directly link their reward system / strategy to corporate culture, which is one of the basic conditions for its effectiveness. Only 23% declare such interconnection within the category of employees as manager; for the other categories of employees, only 16% of companies support corporate values through rewarding. These results can be considered insufficient and are evidence that the management of companies in Slovakia is not sufficiently aware of the link between these two areas and does not work with them in a targeted manner. The reward system is considered to be one of the strongest instruments for promoting the corporate culture and therefore it is beneficial to use it in this regard. This area can thus be considered as a space for efficacy improvement of reward systems in practice.

Research of the influence of individual entities in enterprises on the creation of the remuneration system shows minor changes during the researched period. During the creation of the system, the influence of HR managers as a professional component was strengthened, the involvement of employees' representatives increased significantly (up to double) and the use of external know-how in the design of reward systems was even greater. (Table 3)

Table 3 Involvement of particular subjects into reward system design in Slovak companies (2006-2019).

Subjects	2006	2013	2019
Top management	49%	74%	50%
HR management	47%	42%	68%
Line management	20%	20%	7%
Employee ambasodors	13%	10%	23%
External subjects	3%	4%	16%

Source: own proceedings

These changes indicate the pursuit of professionalism and a professional approach to rewarding. The increased involvement of workers 'representatives, in particular trade unions, is a manifestation of the pursuit of a more transparent, partnership-based approach and consideration of employees' requirements, which may support the perception of the reward system as fair and fair. On the other hand, a significant decrease in the involvement of line managers in the creation of the reward system may seem surprising. Taking a closer look at the involvement of entities in each stage of the reward process - from strategy development to system implementation (Table 4), the influence of line managers is most noticeable at the stage of implementation of the reward system (39% of companies). On this basis, it can be stated that even in our conditions we can see a gradual transfer of competences of line management in rewarding, which is in the context of current trends, although not yet fully implemented.

Table 4 Influence of particular subjects upon forming the reward strategy and its implementation (2019).

Subjects	Reward strategy	Reward system design	Reward system implementation
Top management	80%	50%	25%
HR management	30%	68%	48%
Line management	11%	7%	39%
Employee ambasodors	11%	23%	14%
External subjects	5%	16%	9%

Source: own proceedings

After 1990, trade unions and employee representatives had a low impact on the rewarding in comparison with EU countries. At present, their impact has been strengthened mainly at the stage of system creation (to 23%), but at the stage of strategy formulation and implementation of the reward system remains weaker (11% and 14%). The low involvement of external subjects, ie. j. consultants into development of reward systems (16%) has been overcome. However in the formulation of strategies and the implementation of systems these options are still used to a small extent.

The contemporary concept of total compensation is holistic, ie. j. it includes not only monetary and tangible components but also various intangible components. Armstrong [2] refers in this respect to relational rewards, which he classifies, for example. relationships in the workplace, corporate culture, management styles, talent promotion, etc. The aim of the research was therefore to find out whether companies operating in Slovakia approach rewarding in this way, and what importance they attach to instruments that, although long-term part of human resources management, have traditionally not been directly related to rewarding. The companies surveyed declare that they use these intangible instruments to a large extent as part of rewarding and consider them meaningful. The use of intangible rewards is mainly the responsibility of direct superiors, who must be qualified and trust their

effects. Managers make the most of personal awards (92%) and give them the greatest importance (Table 5)

Table 5 The application of intangible forms of rewarding in Slovak companies (2019).

Intangible rewards	Number of companies	Significance (scale 1 – 5)
Personal appreciation	92%	4,0
Public appreciation	86%	3,4
Common time	78%	3,6
Talent support	70%	3,7
empowerment	71%	2,7

Source: own proceedings

5 Conclusion

Based on the overall results of the researching remuneration systems in companies in Slovakia in the context of the instrument of stabilization of human capital in the company, the most important findings can be formulated as follows:

- the reward system is gradually being professionalized;
- the trend towards a comprehensive and strategic approach to rewarding is stronger;
- the principle of "total compensation" in rewarding employees is widely applied;
- the focus of rewarding is gradually shifting from employee to company level;
- businesses make rewarding adjustments primarily based on performance improvements;
- the importance of knowledge and experience is increasing as the basic determinants of rewarding;
- there are weaknesses in particular in methods of examining the effectiveness of reward systems;
- the importance of active communication of rewarding has increased significantly.

Survey results also showed that the companies surveyed continuously update their reward systems, which is particularly important in an environment of constant and rapid change. Businesses are aware of this and count on changes in systems and actively work with them. However, it should be noted that interventions in reward systems need to be made sensitively and all changes actively communicated. Especially in communication about reward systems there was a significant positive change in companies in Slovakia. While communication has been assessed as a weakness in rewarding in the past, businesses have recently focused their attention on it. Not only the intensity of communication has changed, but also its ways and tools used.

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