Chapter 5

IMPORTANCE OF THE MANAGEMENT INCENTIVES FOR THE IMPROVEMENT OF COMPANY'S ACTIVITIES

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Abstract: In this paper we have emphasized on the importance of the management incentives and their impact on company's efficiency and effectiveness of corporate governance. Company owners, who regard managerial incentives as an investment rather than as a financial outlay, could expect a commitment of the managers to the interests of the company, achievement of desired results and business prosperity. At the same time, the potential conflict of interests between company's shareholders and management could be solved by allocation of appropriate management incentives. As the effectiveness of management incentives depends on their good evaluation, it is important to identify potential indicators and to measure their consistency with the value created to business owners. Moreover we have identified financial measures for manager's contribution to the company operations, used as a criterion for entitlement to managers' incentives. Paper ends by assessing the need to adjust the company to changing global financial envirnoment, with a special reference to the changes of incentives' policy in Serbian companies, and the most important motivational factors affecting Romanian employees during the current period of global financial crisis.

Key words: *Management Incentives, Principal-Agent Problem, Incentive Schemes, Company Performance*

JEL classification: M12, J33, M52

INTRODUCTION[1]

Modern business conditions impose to company owners the obligation to respect the interests of employees, either to direct executives or to managers at various levels of management. Successful modern society operation comprises the effective human resources management. High quality human capital is the driving force and a prerequisite for the achievement of profitability, growth, and development of modern society. Competent employees who approach to their jobs with due professional care are an important factor of companies' growth and development, while the continuous acquisition of knowledge and skills, together with employees, the organization itself has an important role. Complete employees' development is necessary in order to achieve successfully corporate objectives.

As an efficient management of human resources has the impact on business improvement, it is not surprising the fact that the human resources management, being enterprise's development function, constantly is becoming more and more important. If the human resources management is seen as an organizational process which aim is to improve organizational performance and to meet the needs of enterprise employees, an important task of human resource management is the creation of an adequate system of motivation of employees, in order to successfully achieve set corporate objectives.

The incentives are part of HRM system that is consistent with other parts of the system, simultaneously fitting into the overall human resources strategy and support skills, knowledge and values that are important to the organization. Stimulation system design allows the realization of defined human resources strategy and its implementation in practice. Companies' incentive plans are comprised of various forms of stimulations and

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rewards that are focused on the higher motivation of employees at all levels of the organizational structure. Through the provision and improvement of financial status and meeting other employees' interests, the companies impact on creating a good business climate and getting closer the personal interests of employees to the organization's goals. Good business position, social status, highlighting the possibility of knowledge and skills, and adequate evaluation of the same, contribute to employee satisfaction, and ultimately, the achievement of planned business and financial performance of the company.

MANAGEMENT INCENTIVES AS INSTRUMENTS FOR SOLVING PRINCIPAL-AGENT PROBLEM

The employees represent a special interest group which consider the company as a place where can demonstrate skills and abilities, express ambition, achieve a certain status, gain new knowledge and experience, but primary as a source of their income. Every employee in the company can and should be led by common interest, but it is also possible that individual or group interests that are in conflict with the basic objectives of the company and its shareholders guide the performance of assigned activities. Potential conflicts between owner-employee and negative effects on the company activities have made that in the recent years the special attention in literature and practice is paid to manager and other employee's interests. Professor Sengi highlights that the main factor in the revolution of an organization is when the entire organization is fully delivered to the benefits of its employees (Sengi, 2007, p. 155).

Managers as employees of the company, and in the same time agents of shareholders have the task of managing available capital in a way that will allow its fertilization and increase the wealth of the same principals who hire them. The various functions of management and shareholders, conditional on the specific corporate entities, result that managers have more detailed knowledge about the business and have access to more information in relation to the owners of capital. The existence of asymmetric information between managers and owners open space for the emergence of certain problems relating to corporate governance. Great power concerning rights on management and decision-making, assigned to the company top management, and often the fear of bad business and financial performance, loss of bonuses, ratings decline, etc, may lead the management to unexpected business operations and decisions that, as rule, deviate from those that would meet the requirements of the owner. Managers who receive fixed earnings for their engagement, due to insufficient motivation to increase the company's profitability can do business in accordance with their own interests that are different from the interests of shareholders. On the other hand, insufficient motivation for the results may have less commitment to activities that can improve the performance of companies, or avoiding highly profitable investment because it would require hard work and high-risk involvement. If additionally to the foregoing, it is added the possibility of relentless use of the advantage they have in the company, including luxury offices, restaurants, and events, so called agency costs, it inevitably adversely affects the market value of the company.

A number of conflict situations caused by the separation of ownership and management, raise the question of how successfully solve growing principal – agent issue. The seriousness of principal – agent issue, highlights the frauds in companies Enron and Tyco International, where managers were accused of using funds for personal needs (Mishkin, p. 181). By solving the principal – agent problem adequately, it will be difficult to eliminate agency problems, but it is certain that after taking certain measures could be expected lower agency costs. Problem could be solved to some extent by applying current accounting and auditing regulations and efficient functioning of the internal control system. Developed internal audit and certified internal auditors, whose task is assessment of internal control system reliability, reduce the management's "playing field" in terms of doing business in accordance with their own goals and interests. Some measures for issue solving could be in engaging firmly the board of directors, more frequent company audits, and request for recurrent financial reporting by management, as well as some additional costs, not only in form of cash expenses, but also, in more time spent for monitoring.

Regarding the creation of possible growing costs, in addition to the uncertain resolution of principal – agent issues in monitoring managers, shareholders are looking for solutions that would affect the greater management motivation to put their individual goals within the context of the general aims of the company. The reward seems to be the most effective instrument of coordination of the interests of managers and shareholders regarding monitoring. Development and continuous improvement of awareness on commitment to the company, as well as promotion of the enterprise as a common interest of all employees implies the existence of an adequate system of motivation and its effective implementation. Manager's full commitment to finding a profitable and avoidance of unprofitable investments, and consequently, increase of company's market value, owners could expect only from sufficiently motivated company's management. Highlighted importance of enterprise management incentives to undertake the business, investment, and financial activities in accordance with the interests of shareholders, results in the introduction of compensation plans, which define the possibility, and the conditions under which managers and other employees can be stimulated and rewarded. The company O.M. Scot is an example where, among other, by improving incentives they recovered managers' performance, which were greatly disturbed. The Company managed to increase sales by 25 percent and earnings before interest and taxes by 56 percent only by increasing the number of employees participating in bonuses, and enhancing the participation of employees in the capital of the Company (Malinić, 2002, p. 308).

The degree of balancing individual interests of employees and the general aims of the company and the extent to which management will effectively manage the shareholders capital, in terms of increasing value for the owners, depends on the existence and types of incentives. The fact is that the partnership reflects the behavior of managers on the performance of the company, but also that the method of stimulation chosen by the company imposes new additional costs. Therefore, it is pointed out that the level, the way of incentives and target group to which the company refers motivational plant depends of the possibilities of the company. The politics adopted by the company regarding the motivation of employees is in line with funding opportunities, as well as the estimating benefits that implementation of the compensation plan will bring to the company. The following are types of stimuli that are present in practice, concerning that each company creates a structure of the compensation scheme in accordance with its own policy.

THE STRUCTURE OF MANAGEMENT INCENTIVE SCHEMES

The quality of managers' business activities and their effects in the company are the result of their competences, being at the same time, the consequences of the current level of motivation. The connection between the compensation that managers receive for efforts made, and their behaviour is confirmed in theory and practice. Benefits based on regular salary, wage increases and premiums established in agreement; represent a legal obligation of the company as unavoidable business expenses, charged to income or earnings of the observed accounting period. It is compensation based on volume and quality of work, positions in the company, responsibilities, and skills required for performing the delegated tasks. Other managers' cash income is defined by motivation plan that is tailored to the specific characteristics and capabilities of specific companies. The motivation system usually includes a combination of several forms of incentives, both of financial and non-financial nature, which aims to reward the managers who lead in achieving positive results in relation to the average achievement of other employees.

Compensation Package, in addition to base salary that is determined by the value of work, expertise, and skills, includes incentives that exist in various forms of tangible and intangible nature. As a short-term incentive, awards may be used as rewards for achieving high results, payments in recognition of outstanding professional commitment, the rewards for passing the professional examination and improvement of knowledge and, bonuses. Categorization of these short-term incentives as determined by the fact that the stimulation usually paid annually, while companies' annual financial performance serve as criteria for their acquisition. Bonuses are the most common form of incentives for managers and they usually are awarded when are realized the predefined exercise goals in terms of job performance and contribution to the success of the company.

By its nature, the bonuses are not part of regular salaries, but have the character of participation in enterprises profit.

In spite of substantial heterogeneity across companies and industries, executive bonus plans can be categorized in terms of three basic components: performance measures, performance standards, and the structure of the pay-performance relation. Figure 1 illustrates these basic components for a “typical” bonus plan. Under the typical plan, no bonus is paid until a threshold performance is achieved, and a “minimum bonus” is paid at the threshold performance. Target bonuses are paid for achieving the performance standard, and there is typically a “cap” on bonuses paid. The range between the threshold and cap is labeled the "incentive zone", indicating the range of performance realizations where incremental improvement in performance corresponds to incremental improvement in bonuses (Murphy, 1999, p. 10).

Figure 1 - Components of a "Typical" Annual Incentive Plan

Source: Murphy, 1999, p. 80

Companies’ compensation plan may include paid fellowships, scholarships and seminars, and various kinds of benefits such as pension and life insurance, sick leave compensation higher than the legally guaranteed.

Use of loans through the company at discounted prices, free legal and financial advices, business car, free air transportation, fitness club membership, are the examples of benefits which managers may enjoy.

In addition to the aforementioned financial incentives and benefits of various non-financial nature, managers incentives to work in the interests of shareholders, and therefore in the interest of prosperity of the company in the long run, could be achieved by including managers in the company's shareholders board. Plans to encourage ownership in the company, plans on the company's stock option, plans of awarded shares with limited rights, plans of allocation of increased share value and deferred bonus plans, are examples of commonly used long-term incentive plans (Malinić, 2007, p. 77).

Inclusion of the managers into the company ownership, the owners of capital accept as an effective way to stimulate the management to be accustomed to the company and to closer their own interests, as much as possible, to the interests of other stakeholders. Ownership is a powerful motivating factor for the management and effective means for overcoming differences, which unifies the interests of principals and their agents. Just by becoming owners of enterprises, and on that basis exercise all ownership rights, management will present their skills and ability to focus on making quality management decisions and achievement of planned performance. Long-term stimulation contributes to the realization, not only quantitative but also qualitative goals of the company, encouraging the development of new production processes, products, and markets.

The fact is that salaries, incentives, and other benefits that managers enjoy in the company can be viewed as activities that directly or indirectly result in the outflow of funds that may be considerable in relation to total cash outflows. However, if the owners of capital, the outlay of money or other form of compensation paid or awarded, consider as an investment, they can expect from their managers quality work, commitment, and achieving the desired improvement of business operations.

MEASURES OF MANAGERS CONTRIBUTION TO THE COMPANY PERFORMANCE

Some notable authors have opinion that the form of the payment, specifically the sensitivity of total compensation to the performance of the firm, is more important than the level of compensations. For example, Jensen and Murphy show that U.S. CEO (chief executive officer) pay is not very sensitive to performance, although they note that the portion of pay delivered as restricted stock and stock options creates a portfolio which increased value to the CEO is clearly related to the price performance of the firm's stock. Few studies, including studies of CEO compensation, had established a clear statistical link between the structure of compensation and the performance of the firm. (Abowd, J.M. and Bognanno, M., 1995, p. 68) Abowd and Bognanno concluded that a careful international comparison of executive compensation and its relation to the compensation of ordinary employees could provide important evidence on the inter-country variation in CEO, high-level manager, and regular employee compensation.

Measurement of employee performance is a relevant element of companies' motivation system. Alignment of individual companies and general objectives include, inter alia, an adequate measure of individual and group contributions to the positive performance of the company, as well as the distribution of adequate incentives to comply. The fact is that the effectiveness of compensation depends based on criteria on which compensation is calculated. Only if the employee contributes to the success of the company is consistent with the established standards and value creation for owners, we can talk about effective rewards. In the opposite situation can occur that achieved poor performance are rewarded rather than sanctioned, but also that achieved high performance by employees at all levels of the organizational structure of enterprises are insufficiently rewarded.

Employee' performance evaluation procedure consists of a series of activities that connect organizational goals and individual work results. Measuring the achievements of employees work involves establishing criteria of success, the choice of methods and tools of measurement, choice of sources of information on performance, and the measurement process and discusses the evaluation and determination of corrective measures (Pržulj, 2007, pg. 302). Evaluation of business performance, among other, includes the identification of results, behaviors and characteristics of employees, necessary for the realization of company's achievement, while the evaluation procedure should b adopted in accordance with the type of work that employees perform. Regardless of which business effects' aspects are the evaluation subject, it is important that the choice of performance appraisal criteria is reliable and objective.

The best information source on employee performance often depends on the nature of assignment. It is important to choose the source or sources that provide the best possibility of observing the employees' behavior and results. The frequency of conduct and results observation, concerning the realization of tasks, and to the various sources of information, on performance, could be seen in Table 1.

Table 1 - Observing frequency for different information sources

	Source				
	Superior	Colleagues	Subordinate	Self	Clients
Behavior	periodicaly	often	rarely	always	often
Results	often	often	periodicaly	often	often

Source: Noe, Hollenbeck, Gerhart, Wright, 2005, p. 303

When assessing the employees' contributes to the enterprise performance, the ratings from multiple sources of information could be combined, both from internal sources presented by superiors, subordinates and colleagues, as well as by business partners and assessment comities as external, and more objective information sources. Employees' performance evaluation usually involves a combination of some previously mentioned estimation, and may partly be due to so-called employee's self-evaluation, in order to obtain objective access to rewarding employees. Technique called 360-Degree-Feedback is often used when assessing the employee's performance, and consists of the fact that assessors, like boss, colleagues, associates and customers, provide inputs for the managers' employee evaluations. The main advantage of this method, used primarily in strategic and development purposes, is that it offers a means for minimizing bias in an, otherwise, subjective assessment techniques (Noe, Hollenbeck, Gerhart, Wright, 2005, p. 303).

Individual or group managers' contribution to the success of the company could be measured by traditional accounting criteria, the ones based on cash flows, so-called economic benchmarks, as well as non-financial performance indicators. The selected indicator or more often, selected indicators' combination determine the dynamics of compensation granted to the companies' managers. In a study realized in the United States, of 177 surveyed U.S. companies, 68 used only one-performance measure in their annual compensation plans, while the rest of 109 companies combined two or more criteria, where in both cases, the highest percentage (91% of surveyed companies) were using the profit-based criteria (Murphy, 1999, p. 67).

According to the companies' compensation plans, as criteria for achieving employees' cash bonus, could be used earnings, revenues, costs, return on total assets, return on equity, earnings per share, dividends per share, operation's net cash flow, free cash flow, etc. Cost and revenue criteria are commonly used to measure the employees and managers' achievements on profit and investment center level. The improvement of cost performance is reflected in finding ways to reduce costs, or at least avoid the formation of larger one, in relation to the forecasted cost plan. Sales volume increase and sales achievements results in improving revenue performance. The aforementioned accounting standards can be observed as a measure of employee's contribution in creating value for shareholders, provided that the use of amounts and trends of dividends per share, the right and the amount of managers' compensation tends to be directly related to the shareholders' benefit in form of dividends.

Bonuses based on profit are one of the most common ways of incentives provided for the managers to perform activities in accordance with the interests of shareholders. The amount of bonuses linked to profit or to performances based on income, could be determined in several ways. Retention in the realized profit is the simplest way to define the value of the bonus. By defining a certain percentage of participation in the realized profit, only over a certain rate of return, it is avoided the payment of bonuses in the case of low profit value, and rewarding based on unsatisfactory rate of return on equity. Improvement in performance compared to the level of previous years, in relation to achievements at the level of other companies, or the average level of the industry the company belongs, can also be used as a criteria for gaining bonuses. Amount of bonus depending on the planned activities can be recommended criteria for obtaining incentives, if the planned values are based on realistic assumptions.

The companies' market value, economic value added, market value added, total shareholders returns are financial indicators of success that are increasingly being used as a criterion for achieving company managers' compensation. Added economic value, as a difference between net operating profit after taxes and overall capital costs, indicates if the value for shareholders is realized, and to what extent the value is above the expected returns for shareholders and creditors. It could be said that only management that is able to achieve goals in an amount greater than the cost of capital in general, creates value for shareholders, so that the management compensation level is linked to the expected increase in economic value added and increased economic value added above the expected level. Marked Value Added – MVA is also seen as a measure of value created for shareholders, given that the difference between market value and the amount of equity capital invested by shareholders (Fabozzi, 2006, p. 15). In theory, market value added is viewed as the present value of all expected economic value added. Total shareholders return – TSR combines the yield from dividends (expressed in the form of dividends per share) and capital gains, putting the total yield in relation to the company shares' market price at the beginning of the monitored period. Observed from the standpoint of shareholders, the yield determined in this way represents an increase of shareholders value, and it can be used as a measure of the management contribution to value increase.

Companies' compensation plans in addition to financial measures of performance may also include non-financial measures such as new product development, customer satisfaction, and increase of production capacities. Highlighting the non-financial measure of success is result of observations that certain management activities in order to minimize losses, the avoidance of adverse developments, and reduce of harmful effects on the company can be greater success than achieving planned profitability in normal conditions of doing business.

In practice, common are situations that companies in addition to sales, profit, rate of return and other traditional performances, use performance based on cash flows, as criteria for entitlement to employees' compensation, such as net cash flow from operations and free cash flow (Kapić, 2009, p. 41). In that case, may be required the realization of growing performance, or may be precisely specified which growth rate of individual performance should be achieved and in what period. The use of free cash flow level, as a basis for compensation awarding, is explained by the fact that the increase in free cash flow leads to an increase in company shares' market price, based on which can be confirmed an individual management contribution to the enterprise's success. The use of performance-based on cash flows as measure for assessment of managers' contribution to company value is a positive access to create a business environment in which management will act in interests of shareholders, in order to increase the market value of the company. The benefits of incentives granted may be relevant to both managers in person, and the company as a whole.

The ability to create value for shareholders can be considered using the realized rate of return on equity. Stable growth rates of yield usually indicate efficient use of capital, which is putted at the disposal of the company owners, but should not always be a case. Motives to demonstrate the power of capital yield greater it really is are different, but the fact is that such efforts hide the dominance of management personal interests. The desire to meet the required criteria for entitlement to compensation often makes up the company's performance date presented by management. The significance of observed criteria for adequate compensation can be highlighted through the example of companies whose decision on the amount of compensation to be divided among managers of two divisions, depends on whether the only observed criteria is ROE expected rate, or it is monitored cash flow performance (Brigham, 2004, p. 99). If the level of compensation is solely determined on basis of expected ROE, higher amounts of compensation will be attributed to the division B management, which provides a higher rate of return on its own capital.

Analyzing at the same time the stability of the company's cash flows together with expected rates of return on equity as a criterion for compensation realization, the conclusion could be that the previously mentioned way of compensation creates an unequal relationship between the two division managers. Division B management boasts a higher rate of return, but unstable cash flows may be the cause of a miscarriage of expected return rate in future periods, later impossibility to pay off a financial compensation and other company's cash expenses, which all together, can affect the poorer yielding strength assessment, the financial position of the company, and its financial stability. The A Division Managers' credits to obtain a higher compensation, in relation to the management of Division B, can be justified by the fact that, regardless of the lower expected rate of return of Division A, they are able to effectively manage owners' capital, and to generate stable cash flows, which consequently, results that the level of cash flow risk is lower. Unequal compensation relationship between the managers, together with unreasonably high compensation, could be the result of excessive emphasis on achieving returns on capital, regardless the cash flow performance, and other targets such as business maintain or increase of market share, product development, technologies, human resources and maintenance of the company's the reputation, which in the long run may undermine the very return on equity.

The fact is that the performance of companies based on profit is more often under the influence of manipulative activities in relation to ones based on cash flow performance. Yet, one should not disregard the possibility that the reported company's cash flows are subject to creative accounting practice. Overstatement of net cash flow from operations, and based on this data, the expression of free cash flows higher than real ones, is a sign that management want to send a positive signal about the company's performance to its shareholders, and on its basis to achieve some personal interests at the owner's, and other enterprise's stakeholders, expense. Tyco International (Mulford and Comiskey, 2005, p. 29) is an example of the company that by compensation plan defines the right of management at higher hierarchical level on company's stock options. The eligibility criteria as an option on shares, plans to increase profit and improve net cash flow from doing business. Tyco International is also an example where management turns to the shaping on net cash from operations in direction of an unrealistic increase of its value, in order to increase market share price and compensation gaining, in the moment of option execution.

MANAGEMENT INCENTIVES IN THE ACTUAL ECONOMIC CRISIS – SERBIA AND ROMANIA

An effective enterprise policy stimulus effects on creation of positive business environment, and advancement of knowledge and values that are important to the organization. A good system of incentives requires constant evaluation and review in relation to the changed circumstances. Motivation system change by defining and implementing measures to reduce the impact of financial crisis on the company, is the expected response to changed global economic conditions in the last three years in Serbia. Measures in the field of human resources management related to the optimization of the employees' cost mainly include reducing cost of salaries, travel, training, and development, organization of corporate events and employment, as well as freezing the growth of these costs. The companies prefer to resort to short-term measures, while a smaller number of companies are prepared to implement major changes ob business process and motivational system. Concerning short-time incentives, enterprises in Serbia implement a number of quantitative changes, such as reducing bonuses and other forms of incentives, while the change in reward system and redefining the relation between performance and reward system, as well as the relationship of base salary and other compensation are of far lesser presence in 2009. When analyzing the employee benefits, companies turn to limiting and controlling the use of company's car, mobile and fix telephones, taxi services, etc.[2]

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[2] The above mentioned measures, as well as the data given below, represent results of survey called HR Barometer, published by PwC in 2009. PricewaterhouseCoopers has

Table 2 - The measures implemented in the domain of short-term incentives in Serbia in 2009.

The companies that were planning ...	Total budget for short-term incentives		Target bonus levels	
	The number of companies	%	The number of companies	%
Decrease	15	58%	9	45%
Growth freeze	11	42%	10	50%
Increase	0	0%	1	5%
Total sum	26	100%	20	100%

Source: www.pwc.com/rs

Observing the results of the mentioned survey, among the total number of surveyed companies introducing changes in the overall budget for short-term incentives, there are no companies that decided to increase fund, 58 percent determined to reduce the total budget for short-term incentives, and slightly smaller percentage of 42 percent, have adopted to freeze the growth of the budget for these purposes. Comparing this and PwC previous research in Serbia, it can be concluded that the companies were optimistic in early 2009, and had planned to increase this budget. When analyzing the specific benefits available to the employees, the changes are registered with membership in fitness clubs and the use of soft loans through the company.

The total amount and method of allocating bonuses for employees can be defined in advance in accordance with the enterprise policies concerning staffs' incentives. Employees may be rewarded by the principle of discretion, when after completed current fiscal year are carried out a detailed analysis of business performance, company's financial resources, the impact of incentives on business climate, in accordance with existing state decisions, on the amount and methods of incentives allocation to

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launched a survey series among fifty domestic and foreign companies operating in Serbia. Detailed results of its survey are available at www.pwc.com/rs.

employees. Defining so-called target level bonus is one way of regulating the amount and distribution of bonuses to employees. The target bonus is awarded after achieving target company performance, and usually ranges from 20-30 percent below by 20-30 percent above the company's target performance. Height of bonuses target level and factor of success that are used as the target performance criteria, depend on decisions adopted by particular company, and are in accordance with the existing bonus plan and current business conditions. Payouts from bonus plans are determined in a variety of different ways, but the most common payout method (for all but financial companies) is the "80/120" plan. Under a strict 80/120 plan, no bonus is paid unless performance exceeds 80% of the performance standard, and bonuses are capped once performance exceeds 120% of the performance standard. Murphy shows in his research that 42% of industrial companies and 39% of utility companies adopt 80/120-type bonus plans, and overall, 67 of the 177 (38%) sample firms report using the 80-120 approach (Murphy, 1999, p. 13).

It is hard to expect that during downturns, companies decide to increase target bonus level, therefore, the largest number of companies in Serbia analyzed in the aforementioned study have implemented the reduced level of target bonuses or had freeze their growth. The results of survey show that the average decrease in target bonus levels is 30%. Of the total number of the companies that responded to the question on changing target bonus level, 50 percent opted for growth reduce, 45 percent for growth freeze, while only one company decided to increase the level of target bonus.

Compensation plans implies the existence of enterprise scale for awarding bonuses to employees. Regardless of whether the credit or ranking procedure in determining the scale is applied, it is real to expect a change and improvement of calculation methods and ranking bonuses in accordance with the changing business conditions and anticipated future business actions. The negative effects of financial crisis on the company's operations have led to the larger number of companies to refrain from changes in the way of determining bonus, provided that among the group of companies, subject of research, there are companies planning or have already implemented changes previously mentioned. Al together, it comprises 23 percent of the companies, which have declared their actions.

The corporate governance framework should provide timely and accurate disclosure on all material matters related to business enterprises, including issues related to employees. One of the provisions of current Serbian law on companies stipulates that meeting of shareholders decide on the award and expenditure policies on remuneration basis for directors and board members through the share issuance, warrants, and other financial and non-financial benefits. It is an important provision, since the capital owners should be informed in the process of defining the amount and distribution of compensation for companies' managers. The complex and very important issue of regulating the system of motivation and the definition of compensation plan requires a well-placed regulatory basis, which in our case means better regulation procedures. Quality legislation and its adequate use are the prerequisite for a quality employees' incentive system. The fact that in practice are the companies, which adopt subjective approach to determining bonuses and other forms of stimulation, indicates that there are weaknesses in the current legal framework, together with disadvantages in terms of respect of fundamental ethical principles of conduct.

In the current crisis, many Romanian are in search for a job, which will offer them an income and job security. Therefore, the job stability occupies the first place in employee preferences, followed by job type and wage offer. The vocational development and the job enrichment are also important for the Romanian employees (Casuneanu, 2011, p. 931). The results of the Casuneanu' study[3] do confirm the assumption that money is not everything in terms of work motivation, suggesting that managers need to focus more on non-financial incentives to better motivate employees. At the question "what is the additional amount for which the employees would change its job?" 8.7 percent of respondents have confir-

[3] The Casuneanu' study analyze the main characteristics of employee motivation system in the Romanian companies using data collected from 402 individual employees. The target population of the study was employees who have managers position (general manager, manager, department manager, and supervisor) and who have at least 5 subordinates. The study was performed in the period 11-22 June 2009.

med the fact that they would change it for other benefits, but no for more money. These benefits are flexible schedule, paid holidays, working climate and inter-human relations, bonuses and primes, training courses. An attractive benefit package include seasonal tickets or access to sport clubs or beauty centers, medical insurances, facilities for nursery school, facilities for a housing acquisition credit, personal courses financed by the company as well as holidays paid by the company. As regards the main incentives received by employees in order to increase their motivation level, on the first place are situated performance related bonuses, followed by the bonuses unrelated to performance and the short-term training courses.

This study reveal that the most important motivating factors from the point of view of Romanian employee are job authority, responsibility and autonomy, job stability and professional development. Due to the economic crisis, the stability has become the main motivating factor in this period and the people turn to the lower level needs, safety becoming primordial in the top of preoccupations. It looks that the employees like their jobs more than before the crisis. If two years ago, it could be summarized as, “I want more” now this phrases has been transformed into “I want a job” (Casuneanu, 2011, p. 935).

CONCLUSION

Principal agent problem in the modern enterprise may result in disruption of operations continuity and threatening the survival of the company. Monitoring the company’s management and an adequate level of motivation, are in function of company goals realization, and mitigation of conflicts between management and shareholders. The existence of adequate managers’ motivation system and its effective implementation strengthens the awareness of belonging to the organization, and promotion of joint, non-personal interests. Incentives and rewards are an effective instrument of coordination of employees and shareholders’ interests. Investment in human capital becomes the main form of investment creating the competitive advantage. Therefore, the building of a quality system of motivation may increase company's competitive advantage and its market value.

The primary criterion for manager's participation in the allocation of bonuses and other forms of stimulation should be the result of an individual or group contribution to the positive performance of the company. Regardless the fact, whether the contribution to the company's success is measured by applying traditional accounting criteria based on profit, the ones based on cash flows, so-called economic measures or non-financial performance indicators, it is important that compensations reflect the proper managers' contribution quantum realized in the company's performance. The structure of compensation packages, considering the type of incentives and methods of its distribution, an issue of individual company policy, which has to be consistent with the financial opportunities and benefits that company estimates to achieve by implementing this compensation plan. Quality regulations and ethical principles of conduct are relevant support for installation and operation of an effective employee incentive. Assuming that in the future period it will be developed improvement in legislation, and that it will be respected the standards and values of business conduct, both by managers, other employees, and shareholders, it could be expected more efficient functioning of motivational systems in the companies in Serbia.

Some of the companies short-term measures of adaptation to existing crisis business conditions could be optimizing the employee's cost, the quantitative changes in terms of reducing or freezing the incentives, restriction and the control of benefits which Serbian companies' employees enjoy. According to the mentioned study, the most important motivational factors in term of motivation of Romanian employees are job stability, a proper potential salary, opportunities to promotion, an attractive benefit package, an appropriate logistic package, premiums and bonuses, job attractiveness, job authority responsibility and autonomy, professional development and job comfort. The importance of job stability in the context of the actual economic crisis has been wholly understood by the Romanian employees. The Romanian employee is in the situation of reevaluating what he already possesses and is not willing to change very often the job. However, there are employees who choose to change a job for other benefits, but no for more money.

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