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REMUNERATION SYSTEMS IN CREATING EMPLOYEE INNOVATIVENESS

Summary. The paper shows remuneration as a stimulant of employee innovativeness in Polish enterprises. Its conclusions are based on the results of a research project whose aim is to define the relationships between the activities of employees as innovators and firm innovativeness. The definition of these relationships is becoming ever more significant due to the lack of funding allocated to R&D. Employees' inclusion in the innovation process can additionally increase their motivation, engagement and work satisfaction. This may also make the firm more attractive and help to draw talent. The main aim of this paper is to prove that the effectiveness of pro-innovation remuneration systems is determined not only by the structure of the system, but also, to a great extent, by the solutions in the sphere of the company management supporting it. The research was conducted in Poland. Respondents were businessmen, HRM managers and employees.

Keywords: remuneration, innovation, creating employee innovativeness, HRM

SYSTEMY WYNAGRADZANIA W KREOWANIU INNOWACYJNOŚCI PRACOWNICZEJ

Streszczenie. Artykuł wskazuje na wynagrodzenia, jako na stymulator innowacyjności pracowniczej w polskich przedsiębiorstwach. Jego konkluzje oparte są na wynikach projektu badawczego, który ma na celu określenie związków pomiędzy pracownikami – innowatorami a innowacyjnością firm. Z powodu znacznego niedoboru środków finansowych przeznaczanych na innowacje określenie tych relacji staje się coraz bardziej istotne. Ponadto, włączenie pracowników w procesy innowacyjne może zwiększyć ich motywację, zaangażowanie oraz satysfakcję z pracy, a także może zwiększyć atrakcyjność pracodawcy oraz przyciągnąć talenty. Głównym celem artykułu jest udowodnienie, że o skuteczności proinnowacyjnego systemu wynagradzania decyduje nie tylko konstrukcja tego systemu, ale w dużej mierze wspierające go rozwiązania w sferze zarządzania firmą.

Badania były prowadzone w przedsiębiorstwach w Polsce. Respondentami byli pracodawcy, menedżerowie ZZL oraz pracownicy.

Słowa kluczowe: wynagradzanie, innowacje, pobudzanie innowacyjności pracowniczej, zarządzanie zasobami ludzkimi

1. Introduction

Both scientists and practitioners express their conviction that success in the rivalry conditions of a global economy and ease of product manufacturing are dependent on the innovativeness of society and consistency in implementing innovation. Although it is only relatively recently that a lot is being said about the role of innovativeness, it is obvious that it is gradually growing in importance.

Current economic conditions make company innovativeness a key factor in its achieving a competitive edge. The importance of this factor only grows in a knowledge-based economy (Borkowska, 2010a, p. 14). Many scientists present just such a view, including authorities in the field such as M. Porter (Porter, 2001, p. 192). It was P. Drucker who noted the great weight of innovation, thanks to which companies can achieve and maintain a market advantage even earlier (Drucker, 1992). Presently, innovativeness has become one of the key measures of competitiveness (*Innowacyjność*, 2010, p. 9). Jack Welch, a talented manager, maintains that competing through innovation is a mechanism that cannot be ignored. It is no longer possible to limit oneself to maintaining the *status quo*, which only leads to total defenselessness against competition (Welch, 2005). Innovation, responsible for changes in companies, has a strong impact on its surroundings. It brings about a need to introduce changes and innovation in other companies (Świtalski, 2005).

There are a few types of innovation – categorized as product, organizational, market, and technological (process). Under Polish conditions there is a continuous underinvestment of research and development centers and activities (Borkowska, 2010a p. 32). This creates the potential for introducing any amount of change – be it big or small – and rationalization in using the available funds.

Usually, the impulse for radical innovation (breakthrough, strategic) is expected from specially oriented research and development conducted in major research centers, often functioning within a company framework. It is these types of organisations that have relatively significant financial resources at their disposal and are long-term oriented towards project completion, taking into account the risk of failure. In Poland, the existence of a large research and development department is rare. Usually, they tend to have the dimensions of a small unit and often face the problem of underinvestment. Poland lacks a clear orientation

towards breakthrough innovation because this requires extremely costly basic research. Much more common is the implementation of new solutions that have already proved themselves, for which a license was acquired abroad or (rarely) at home (where this is the innovation of a single company). There is also the introduction of new products or technological changes that are the result of the creativity of company employees. Rationalization – the improvement of work methods and tools – which is often termed "small-scale innovation,' is often successfully initiated and readied for implementation in the company. This is usually inexpensive, does not require the purchase of a license, and is introduced in tiny steps leading to major effects. Management innovations – marketing and organizational – are highly sought as they generate relatively low costs and are a source of competitiveness. Since there is a serious financial barrier, then "all the more important is the smart utilization of human resources in the development of innovativeness. Especially important is the prevention of talent wasting. (Borkowska, 2010a, p. 32).

The significant potential inherent in the pro-innovation influence of HRM was noted and certain communities have deemed this issue as being important and worthy of more in-depth study (Shipton, et al., 2005; de Leede and Looise, 2005; Borkowska, 2010, OECD 2010; OECD 2010a). However, this subject matter is still not looked into with the frequency it deserves. Few are the researchers who stress the rank of employee innovativeness and the innovative role of each and every employee in the organization (Dorenbosch, et al. 2005; Ramamoorthy, et al. 2005). Practice indicates that it is worth appreciating as it can bring in major benefits. A perfect example is Daimler-Chrysler with its 69,000 project forwarded by employees that resulted in savings amounting to EUR 62 million.

2. Remuneration systems and innovativeness

One of the most important aspects of HRM is the remuneration system. It contains significant potential for influence aimed at the creation of a pro-innovation attitude on the part of employees and the strengthening of their involvement in the building of company innovativeness (Zingheim and Schuster, 2007, Malanowski, 2007). The question of pro-innovation remuneration systems in the context of the determinants of their effectiveness is the subject of this project. The weight of this question is cause for the taking up of studies and its scientific documenting. Motivating for innovativeness should not be limited to the monetary dimension. However, this is the case in most companies in Poland (Borkowska, 2010). Clearly, internal motivation and the use of intangible means are not appreciated. Remuneration systems for innovators are not sufficiently adapted to the specifics of their work. Usually, they do not take into account the risk of failure, effects that are deferred, and

are not long-term in character. Intangible motivational instruments are significantly less popular, even in highly innovative companies.

Statistics indicate that the stimulation of the originality and creativity of employees is not frequent in Poland, especially in industrial companies. Also confirmed is the greater frequency of application of financial incentives rather than intangible ones (approximately 19% as compared to 13% in industry, where the case in services is almost 22% as compared with 16%) (*Działalność...*, 2012, pp. 287-292). This phenomenon is a cause for concern. It is at odds with both the suggestions of scientists (Nacinovic, et al. 2009) and the practices of highly innovative Western companies (Zingheim and Schuster, 2007). Such conclusions justify the need for undertaking the study of this subject.

The establishing of the shape of a remuneration system so it provides effective motivation for innovation meets with a multitude of uncertainties. This has been noted by certain researchers. The problem lies in the decision regarding *whom* to reward for innovativeness. As a rule, the systems are aimed at rewarding employees in non-managerial positions, but managers are expected to support the system. This is a source of inconsistency that upsets the efficiency of the system (Seatle, 2003). Also difficult to answer is the question of whether the assessment of the employee in terms of creativity and innovativeness *should* be tied with remuneration. The results of certain studies suggest that the answer is negative (Shipton, 2005). However, the experiences of highly innovative companies are positive (Zingheim and Schuster, 2007).

What is of importance is that it has been empirically proven that the pro-innovation character of the remuneration system has an impact on employee attitudes and builds in them something of a commitment to demonstrate creativity (Ramamoorthy, 2005).

Examination of determinants of the effectiveness of pro-innovation remuneration systems in a modern organization must currently take into account two problems: changes in the content of the concept of *remuneration* and changes in the content of the concept of *employee* (Lawler, 2011).

Companies achieving success are undergoing a change in the character of their remuneration system and moving towards its defining and modification into 'total rewards' systems. Such remuneration systems are already much broader than pay and contain elements of all possible rewards that an employee may receive in connection with involvement in work in a given company. The main principles are (Zingheim and Schuster, 2000):

- 1. Guaranteeing a secure future, not only a good job,
- 2. Guaranteeing individual development, not only training,
- 3. Guaranteeing a positive workplace, not only a nice place to work, and
- 4. Guaranteeing total pay, not only competitive pay.

The idea behind these types of motivation systems is the building of employee involvement through open communications (complete and reliable information, including frequent information regarding work results and employer expectations), exceptionally good coaching with feedback aimed at the development of the employee, and education and training in desired competencies. The implementation of such a program is always coupled with the creation of a 'friendly' work environment, investments in people, and attractive remuneration (both in terms of level and applied forms). Great importance is tied to identification and recognition, which, to a large degree, are intangible. The development of such a system is much more difficult than applying exclusively cash forms. It also requires greater knowledge. A broad approach to remuneration creates significant possibilities of flexibility in application. This facilitates possibilities of adapting the expanded gamut of remuneration instrument to changing employee expectations and growing diversity in the employee group.

The contemporary employee, especially the knowledge-employee, has ever increasing expectations with respect to his or her employer in the wake of growing awareness of his or her value to the company. Such an employee decidedly prefers it when work is defined by tasks, not time spent in the office. Such an employee wants to be rewarded for results. However, what is primarily important is the possibility of satisfying professional ambitions and career planning. Such an employee is particularly interested in his or her own development by receiving increasingly ambitious and complex tasks, the enrichment of work content, running receipt of exhaustive information, and an expansion of rights to decisionmaking, which is not necessarily linked with advancing to a higher position. The employee expects work to be not only a source of income, but also a source of pleasure, enjoyment, and satisfaction. Work is becoming a major source of internal motivation for involved actions for the company. These are the qualities of an employee of what is known as Generation Y (Meister and Willyerd, 2010) who speaks of his or her needs openly and demands their satisfaction. Since this generation is slowly beginning to make up the majority on the labor market, employers must take these expectations into account. This also seems important because such a characterization matches qualities that are ideal in potential innovators.

The new 'face' of work brings with it the need for applying more 'refined' management instruments. They must be adapted to new conditions and allow for the achievement of three goals: attracting valuable people to the company, convincing them to perform defined actions deemed desirable by the organization, and guaranteeing employee work-derived satisfaction in order to keep them with the company. Remuneration systems can be a very strong and good way of communicating company objectives, its values, and business priorities. However, they should be directed at creating a win-win situation between the company and its employees.

An ideal form for pro-innovation remuneration systems is not enough to achieve effectiveness, however. What is needed is support by the meeting of certain conditions. Determinants such as a pro-innovation organizational culture, structure, a pro-innovation business strategy, the cohesiveness and comprehensiveness of all pro-innovation HRM strategies in the company, and an orientation aimed at comprehensive work benefits (total rewards), especially the use of recognition should be demonstrated, which is the goal of this project. To date there is an absence of detailed and targeted studies. Thus, the in-depth identification and documenting of these dependencies may significantly enrich the existing state of knowledge in the area of human resource management.

3. The research on Polish remuneration systems creating employee innovativeness

3.1. The aim

The main aim of the research is to prove that the effectiveness of pro-innovation remuneration systems is determined not only by the structure of the system, but also, to a great extent, by the solutions in the sphere of the company management supporting it. The scientific objective of presented research¹ is the identification of the qualities of remuneration systems oriented at releasing and stimulating the innovative activities of employees in the contemporary organization and the defining of the determinants behind the effectiveness of such systems.

3.2. Research methods

The quantitative questionnaire-based survey study was directed to a group of companies who applied financial incentives for employees to stimulate new ideas and creativity². The selected firms represented the most and least innovative industries. Respondents were HRM managers from 112 innovative and 74 non-innovative companies. Employee research is still being conducted.

Assuming the simplified presupposition that the level of innovation in the company is due to the usage of motivators, in broad outline, one can understand that the most effective

¹ Within the framework of Polish National Science Centre (NCN) grant (UMO-2012/05/N/HS4/00333).

² The base for selection of respondents was the research by the Polish Central Statistical Office (GUS) conducted within the framework of the Community Innovation Survey (CIS).

motivators are used in innovative companies and less effective are used in non-innovative enterprises. This becomes more legitimate as only some of the companies investigated have their own R & D departments (R & D). In the whole research only in 17% of the companies such departments were found, which of course were among the most innovative companies. We assume therefore that in most of the cases, the source of innovation is the creativity of employees.

3.3. Main results

The questionnaire included questions about the type of the company's strategy: is it proinnovative? This type of strategy was observed more often in innovative companies (60%), and in 40% non-innovative. Analysis suggest that this is the most differentiating factor among instruments used to stimulate employee innovativeness. Table 1 shows these proportions.

Table 1

| Firm innovativeness | Pro-innovation strategy | Non-pro-innovation strategy | Total |
|---------------------|--------------------------------|-----------------------------|--------|
| Non- innovative | 40,5% | 59,5% | 100,0% |
| Innovative | 59,8% | 40,2% | 100,0% |
| Total | 52,2% | 47,8% | 100,0% |

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Source: Author's research.

Determinants of success in creating employee innovativeness - employer's opinions

Employers/HR managers representing innovative and non-innovative companies strongly differed in regard to the indication of the determinants of employee innovativeness creativity.

Representatives of innovative companies as the most important factor pointed out the organizational culture supporting innovation (31.1% of respondents), and what is characteristic, those who appreciated culture of the organization, never pointed out to cash incentives. The next important factor was recognized as a well-organized system of innovation support (17.9%) and creative staff (12.5%) who was recruited using special procedures.

Not so often did they indicate organizational structure supporting innovativeness (9.8%), comprising flexible work systems and the significant role of innovation leaders, delegation of authority to lower organizational levels and focus on employee self-control. Another significant determinant of innovation indicated by this group is innovator's success using various forms of recognition (intangible instruments) (9.8%). Financial reward was listed as an alternative to recognition or supplementing them. Less than 9% of employees (8.9%) indicated financial instruments as a determinant of success in creating employee innovativeness.

Representatives of non-innovative firms have slightly different opinions. Definitely, those financial incentives (20.3%), both in the form of bonuses, awards for special achievements and salary increases were for them important determinants of success in creating employee innovativeness. They appreciated the organizational culture that supports innovation (18.9%). Another indicated factor is recognition (13.5%), and the frequency of such responses was much greater than in the group of innovative companies. Also important were the organizational structure supporting innovativeness (12.2%) and new challenges for self-realization (12.2%). Both of these factors were considered important also in the group of innovative firms, but they were of less importance.

Employers in the study were asked to express their opinion on the effectiveness of various pro-innovative instruments. They assessed if monetary instruments motivate employees for the creation of pro-innovation attitudes. This assessment was positive for 64%, negative for 9% negative, and slightly under 27% undecided, with larger hesitance in the innovative environment (29,5% undecided). Table 2 illustrates the distribution of responses in the context of the level of innovation of the company.

Table 2

| for creating pro-innovation attitudes | | | | | |
|---------------------------------------|--|---|------------|--------|--|
| Firm innovativeness | Incentive nature of monetary instruments | Non- incentive nature of monetary instruments | No opinion | Total | |
| Non-innovative | 66,2% | 10,8% | 23,0% | 100,0% | |
| Innovative | 62,5% | 8,0% | 29,5% | 100,0% | |
| Total | 64.0% | 9.1% | 26.9% | 100.0% | |

Employer's opinions on the effectiveness of monetary instruments for creating pro-innovation attitudes

Source: Author's research.

The distribution of responses suggests that in the innovative firms there are other important instruments to motivate the innovative attitudes.

A similar analysis to the above was conducted on employer's opinions on motivating for innovativeness by use of non-material instruments. It reveals a rather common (almost 60%) uncertainty about the effects of non-material incentives. Positive opinion on the effectiveness of recognition was expressed by every fifth employer. Intangible measures for innovation as being effective were recognized by representatives of innovative companies. This issue is shown in Table 3.

| Firm innovativeness | Incentive nature of non-material instruments | Non-incentive nature of non-material instruments | No opinion | Total |
|------------------------|--|--|------------|--------|
| Non- innovative | 14,9% | 25,7% | 59,5% | 100,0% |
| Innovative | 25,9% | 14,3% | 59,8% | 100,0% |
| Total | 21,5% | 18,8% | 59,7% | 100,0% |

Employer's opinions on the effectiveness of non-material instruments for the creation of pro-innovation attitudes

Source: Author's research.

Employers were asked to make their own list of the most effective instruments motivating for innovation.

The lists made by employers from both innovative and non-innovative companies as to the most effective means of motivating employees to demonstrate creativity and innovation practically do not differ. More than 60 % in each group indicate the effectiveness of various funding schemes (65.2 % innovative and non-innovative 60.8 %), approximately 30% of the effectiveness of various forms of recognition (30.4% of innovative and non-innovative 31.1%), and non-cash means of motivating accounted for 13.4% for innovative companies and 9.5% in non-innovative. This latter group includes, among other things, participation in attractive training for employees and granting time off.

So what differentiates employers when it comes to their assessment on effective instruments to motivate employee innovation comes down to whether or not the company has a strategy targeted to innovation (Table 4).

Table 4

| Firm innovativeness | Type of business strategy | Money | Recognition | Non-monetary material instruments |
|------------------------|--------------------------------|-------|-------------|--------------------------------------|
| Innovative | Pro-innovation strategy | 67,6% | 42,6% | 19,1% |
| Innovative | Non-pro-innovation strategy | 52,3% | 15,9% | 4,5% |
| Non-innovative | Pro-innovation strategy | 63,3% | 56,7% | 13,3% |
| Non-innovative | Non-pro-innovation strategy | 5,4% | 8,1% | 4,1% |

Effective tools stimulating employee innovation as proposed by the employers

Source: Author's research.

Employers' opinions about effective ways of motivating employees to demonstrate creativity and innovativeness vary more depending on whether their company has innovation-oriented strategy than the actual level of innovation. With full conviction I can conclude that pro-innovative oriented companies, with an innovation strategy, greatly support the role of financial incentives (in over 63% of opinions), and strongly support the role of recognition (42-57% of opinions). Also worth considering are various types of non-monetary instruments used to motivate (training, leisure, etc., representing response rates in the range of 13-19%).

Table 3

Such a distribution of responses may suggest that employees who are interested in innovation perceive and place particular significance on recognition. When that interest is already apparent and gives effects, the role (or valuation) of material forms also increases. Not surprising then are the opinions revealing the insignificant role of different types of instruments used in fostering creativity in companies that are not interested in these issues. These intangible motivators for this type of effectiveness were considered by 8% of employers, and the material – only 4-5%.

The use of instruments to motivate innovation in practice

This begs the obvious question of how these views of employers and personnel managers translate into actually using the tools in their companies? And which of these can be considered truly effective? Detailed analysis of the research material obtained allows to trace the universality of application of the various instruments in the context of the level of innovation of the company.

The 186 surveyed companies support employee innovation. But decisive action in this direction more often was declared by innovative companies (53% and only 31% by others). Strictly defined rules and mechanisms of collection of employee's ideas and projects took place in less than a third of all respondents, but more often in innovative companies (38%) than others (19%).

In most cases the fact of inclusion in the innovation process, submitting of proposals, and creative participation in the activities of the organization was rewarded, in accordance with the principle that any form of innovation should be noted and rewarded. Creativity that finally makes its way into implementation was rewarded in 36% of all surveyed organizations. More often it has been in innovative companies (42%) than in non-innovative (27%).

The following part of the study is based on those companies which have used financial incentives for employees who generated new ideas, so these instruments were used in all organizations under this study. According to the assumption we have noted, however, these instruments were ineffective and did not translate into the company's innovation.

The most common forms of financial rewards given in appreciation of innovators are: one-time awards and bonuses, especially used in innovative enterprises. Prizes are used there by more than 40% (only 23% of other companies), and bonuses 29% (23% of other companies). Increases in salaries are sporadic (used in approximately 5% of companies), even rarer are the solutions of equity (share options) and participation of employees in profits from innovation (1.6%),

The rewarding of innovators had a more individual form. The usage of team awards was sporadic, used in less than 10% of organizations, despite the fact that teamwork is not

uncommon for the promotion of the innovative attitudes (62% of companies). Collaborative forms of reward occurred slightly more often in innovative companies.

Non-financial rewards for innovators are not very common, but contrary to the views of employers about their moderate efficacy, they are used in more than 38% of innovative companies, while only in 20% of the other companies. Typically, these are forms of recognition, comprising administering to the public the achievements of innovators and congratulatory letters addressed to them. A distinctive reward, especially in innovative organizations, is the right to represent the company at conferences or symposia. Sometimes the reward for participation in the innovation process is additional leisure. Tangible rewards are used in every 8th company.

Support activities for the creation of employee innovativeness are numerous in the field of human resources management.

The analysis shows that in the vast majority of cases examined the HRM was focused on the construction of the involvement of employees (more than 70 % of companies). Such a situation occurred slightly more often in the innovative companies. The effects of these actions have been very positive, and the employer boasted a large commitment of employees in the affairs of the company, and innovative firms were more determined in their assessments and confident that almost three quarters of their staff were engaged. Managers of non-innovative firms were significantly less positive when trying to assess the discussed case.

In the opinion of a third of employers, their employees quite often have intrinsic motivation for innovation. However, in innovative companies the denial of the existence of the motivation of subordinates is rare (5.4%), and in non-innovative firms four times more frequent. It is there that the intrinsic motivation to innovate in the recruitment process is rarely taken into account. However, the assessment of candidate's intrinsic motivation is expressed by most of the surveyed companies.

Training specifically aimed at the development of useful expertise is a support for innovation in innovative companies.

HRM practices aimed at promoting creative attitudes that are especially developed in innovative companies, and less frequent in the other are: staff training focused on the development of useful competencies, performance appraisal systems, procedures, internal communication within the company, job design and work organization, as well as participative management and a wide range of delegation of decision-making. There is also slightly higher tolerance for innovation failure. Organizational structure and culture support exist more often in innovative companies than in others.

Employers in innovative enterprises, more often than in others, stated a coherence of the remuneration system and other elements of the HRM.

Table 5

The frequency of the implementation of the instruments mentioned above leading to the final effect – innovation, denotes the conclusion on its effectiveness. It strengthens the complementarity of the instruments.

A deeper analysis of the information obtained in the study showed that type of business strategy very much differentiates in the instruments used to create employee innovativeness. Organizations with a pro-innovation business strategy deem that the use of all the instruments identified in the article as effective, more intensive and comprehensive. This enhances their effectiveness.

A good example would be the use of non-financial rewards for innovators depending on the level of innovation and corporate strategy (Table 5).

| Firm innovativeness | Type of business strategy | Users of non- financial rewards for innovators | Non users of non- financial rewards for innovators | Total |
|------------------------|--------------------------------|--|--|--------|
| Non-innovative | Pro-innovation strategy | 43,3% | 56,7% | 100,0% |
| Non-innovative | Non-pro-innovation strategy | 4,5% | 95,5% | 100,0% |
| Non-innovative | Total | 20,3% | 79,7% | 100,0% |
| Innovative | Pro-innovation strategy | 52,2% | 47,8% | 100,0% |
| Innovative | Non-pro-innovation strategy | 17,7% | 82,2% | 100,0% |
| Innovative | Total | 38,4% | 61,6% | 100% |

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Source: Author's research.

4. Conclusions

Analysis of the results of the research appears to reach a definitive conclusion that the effectiveness of a pro-innovation remuneration system is determined not only by the structure of the system, but also, to a great extent, by the solutions in the sphere of the company management supporting it.

The effectiveness of the pro-innovation remuneration system increases as the company provides strong support for employee innovativeness by way of a pro-innovation organizational culture, structure, and pro-innovation business strategy. Important conditions for the effectiveness of a pro-innovation remuneration system are its cohesiveness with the HRM system and the comprehensiveness of pro-innovation HRM solutions. Cash remuneration is a very important instrument motivating the employee to innovate. However, its effectiveness is significantly increased if it is supplemented by intangible forms of motivation (recognition).

Examination of determinants of the effectiveness of pro-innovation remuneration systems in a modern organization must currently take into account two problems: changes in the content of the concept of *remuneration* and changes in the content of the concept of *employee*. Companies achieving success are undergoing a change in the character of their remuneration system and moving towards its defining and modification into 'total rewards' systems. Such remuneration systems are already much broader than pay and contain elements of all possible rewards that an employee may receive in connection with involvement in work in a company. So currently, remuneration systems should be adapted to new conditions and allow for the achievement of three goals: attracting valuable people to the company, convincing them to perform defined actions deemed desirable by the organization and guaranteeing employee work-derived satisfaction in order to keep them with the company. They should be directed at creating a win-win situation between the company and its employees.

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