

Review Article

UDK: 330.341.1:316.42

Received : 8.04.2026

Accepted: 25.05.2026.

DOI: 10.59864/sam110106IA

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How to cite: Arsić, I., Murar, I. & Stamenović, D. (2026) The incentive system as a social mechanism for the development of innovation. *Serbian academic thought*, Vol.11, 1, 75-84.

THE INCENTIVE SYSTEM AS A SOCIAL MECHANISM FOR THE DEVELOPMENT OF INNOVATION

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Abstract: The incentive system represents an important mechanism that influences the development and improvement of innovation in society. It includes various forms of motivation, including material, institutional, and social incentives, which guide individuals and organizations toward creative work and the creation of new solutions. From a social perspective, innovations are not only the result of individual ability, but also a product of the social environment that encourages cooperation, knowledge exchange, and creativity. Social recognition, educational institutions, and innovation culture play an important role in strengthening innovation potential. An effective incentive system contributes to the development of an innovation culture, increases motivation for research, and enables a wider range of people to participate in innovation processes. In this way, incentives directly influence the increase of competitiveness and overall socio-economic development.

Key words: Incentive systems, innovation development, social mechanisms, public policy.

Introduction

In modern conditions of rapid technological and social development, innovation represents one of the most important factors of progress, competitiveness, and sustainable development in any society. It enables the improvement of products, services, and processes, while also contributing to the overall quality of life. However, innovation does not emerge spontaneously; it is the result of a

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complex interaction between individuals, institutions, and the social environment that encourages and directs it.

In this context, the incentive system plays a key role as a social mechanism that motivates and guides people toward creative thinking and innovative action. Incentives can take various forms—material incentives such as financial rewards and investments in research, institutional support through educational and scientific organizations, as well as social incentives that include recognition, status, and affirmation within the community. From a social perspective, the importance of the incentive system is reflected in its ability to shape an innovation culture, encourage cooperation and knowledge exchange, and create an environment in which creativity and initiative are valued. In this way, innovation becomes the result of collective action rather than solely individual effort.

For these reasons, studying the incentive system as a social mechanism for the development of innovation provides a better understanding of the factors that influence a society's innovative potential and its overall socio-economic development.

In contemporary knowledge-based economies, innovation is increasingly recognized not only as a technological phenomenon but also as a social process embedded within networks of cooperation, trust, and institutional support. The ability of individuals and organizations to generate and implement new ideas depends largely on the broader social context, including access to education, research infrastructure, financial resources, and opportunities for collaboration. Consequently, societies that successfully establish supportive incentive systems are generally more capable of fostering entrepreneurial initiatives, technological advancement, and long-term economic growth.

Furthermore, the effectiveness of incentive systems is closely related to their capacity to balance individual motivation with collective societal goals. Well-designed incentive mechanisms encourage risk-taking, experimentation, and the pursuit of novel solutions while simultaneously promoting social responsibility and sustainable development. In this regard, innovation should be understood as a multidimensional process that encompasses economic, social, cultural, and institutional dimensions. Examining how incentive systems influence innovative behavior therefore provides valuable insights into the mechanisms through which societies enhance their adaptive capacity, strengthen competitiveness, and respond to the challenges of an increasingly dynamic global environment.

The role of the incentive system in the innovation process – social aspect

Today's organizations increasingly expect employees to be innovative and creative, yet they often overlook a fundamental motivational question from the employee perspective: why should individuals engage in innovation and creativity in the first place? Recent research emphasizes that effective incentive

systems must address both extrinsic and intrinsic motivational drivers of innovative behavior (Anderson et al., 2022; Hewett et al., 2021).

The first key dimension of incentive systems involves rewarding the generation of new products, processes, and business solutions, shifting organizational focus from routine efficiency toward innovation-driven value creation. The second dimension concerns how incentives influence managerial attitudes toward risk-taking, experimentation, and openness to change, which are critical for sustaining innovation performance (D’Innocenzo et al., 2023; Kaur & Gupta, 2022).

Designing incentive systems that successfully encourage creativity and risk-taking is one of the most complex challenges in innovation management. While innovation is essential for long-term competitiveness and survival, short-term financial pressures often reduce willingness to invest in uncertain innovative outcomes. This tension between short-term efficiency and long-term innovation remains a central issue in organizational behavior research (Zhang et al., 2021; Bocken & Geradts, 2020).

Poorly structured incentive systems may lead to innovation failure or abandonment of ideas at early stages, often described as “innovation drop-off” or “idea attrition,” where promising projects are discontinued due to fear of failure, lack of resources, or low confidence among employees (Foss et al., 2022; De Massis et al., 2023).

A key debate in the literature concerns the relative effectiveness of financial versus non-financial incentives. While monetary rewards remain important, recent studies suggest that recognition, autonomy, and meaningful work often have stronger long-term effects on creativity and innovation behavior (Ng & Feldman, 2021; Liu et al., 2022). Many organizations implement structured reward systems such as annual innovation awards, which often function more as symbolic signals of strategic priorities than as direct motivational tools (Hassan et al., 2023).

More effective approaches integrate innovation into career development systems, where creative thinking becomes a core competency for advancement. In such systems, promotion and professional growth serve as long-term incentives that combine financial benefits with psychological satisfaction and self-actualization (Aguinis et al., 2021; Jiang & Messersmith, 2022).

Top management plays a decisive role in shaping organizational innovation culture by clearly communicating which behaviors are valued and rewarded. Leadership support is essential in creating an environment where experimentation, risk-taking, and idea generation are socially and structurally encouraged across all organizational levels (Khan et al., 2023; Ritala et al., 2022).

Ultimately, the most powerful incentive is the successful realization of innovation goals, as achievement reinforces desired behaviors and strengthens a continuous cycle of innovation within the organization (Anderson et al., 2022; Foss et al., 2022).

Another important aspect of innovation-oriented incentive systems is their ability to foster knowledge sharing and collaborative learning within organizations. Innovation rarely emerges from isolated individual efforts; rather, it is typically the result of interactions among employees with diverse expertise, experiences, and perspectives. Incentive mechanisms that reward collaboration, cross-functional teamwork, and knowledge exchange can significantly enhance an organization's innovative capacity. By encouraging employees to contribute ideas, share best practices, and participate in collective problem-solving processes, organizations create a more dynamic environment in which innovation becomes an integral part of everyday activities rather than an occasional outcome.

Moreover, contemporary organizations increasingly recognize that innovation incentives should be aligned with broader organizational values and strategic objectives. Sustainable innovation requires not only financial investment and managerial support but also a culture that promotes trust, psychological safety, and continuous learning. Employees are more likely to propose novel ideas and engage in creative activities when they perceive that mistakes are treated as opportunities for learning rather than as grounds for punishment. Consequently, successful incentive systems extend beyond traditional reward structures and contribute to the development of an organizational climate in which innovation is viewed as a shared responsibility and a key driver of long-term organizational success.

Social Aspect of the Reward System in Stimulating Innovation

From a social perspective, the reward system represents far more than a formal managerial instrument used to influence employee performance. It is also a crucial social mechanism that shapes behavior, interpersonal relationships, organizational values, and the overall culture of innovation within an organization. In this sense, reward systems determine how individuals perceive their role in the collective, how they interact with colleagues, and how strongly they identify with organizational goals and outcomes (Davila, Epstein, & Shelton, 2013).

Innovation is not driven exclusively by financial incentives, but is strongly influenced by social and psychological factors such as recognition, trust, communication, and a sense of belonging. Employees are often motivated by informal forms of appreciation, managerial support, and acknowledgment of effort, which can significantly enhance their engagement and creative potential. Therefore, reward systems contribute to the creation of a social environment in

which innovative behavior is not only expected but also socially reinforced and valued at all organizational levels (Amabile, 1996).

A key social dimension of reward systems is the balance between individual and collective motivation. While individual rewards can encourage personal achievement, innovation is frequently the result of teamwork, collaboration, and knowledge sharing among employees. For this reason, effective reward systems must be designed in a way that promotes cooperation and shared responsibility, rather than excessive competition that may weaken group cohesion and trust (Tushman & O'Reilly, 1997).

Intrinsic motivation—such as passion for work, curiosity, and the desire for self-development—is deeply influenced by the surrounding social environment. When employees feel respected, included, and valued within their organization, they are more likely to take initiative, share ideas, and engage in innovative activities. In this way, organizations function as social systems that can either stimulate or constrain innovative potential depending on their culture and internal relationships (Deci & Ryan, 2000).

Supportive organizational cultures characterized by autonomy, flexibility, and recognition further strengthen innovative behavior. Companies that successfully integrate these social elements create environments where creativity becomes a natural part of everyday work. A well-known example is companies that prioritize employee well-being and freedom in work organization, which often results in higher levels of innovation and productivity.

Ultimately, from a social standpoint, the reward system is not merely about distributing financial or material incentives, but about building a culture of trust, cooperation, and shared purpose. Such a system strengthens social cohesion within the organization and creates sustainable conditions for continuous innovation and long-term development (Davila et al., 2013).

Another important social function of reward systems lies in their ability to influence organizational identity and employees' perception of fairness. When rewards are distributed transparently and consistently, employees are more likely to perceive the organization as equitable and trustworthy, which strengthens commitment and organizational citizenship behavior. Conversely, perceived inequities in recognition and reward allocation may generate dissatisfaction, reduce motivation, and discourage participation in innovative activities. Therefore, the effectiveness of reward systems depends not only on the value of incentives but also on employees' perceptions of procedural and distributive justice within the organization.

In addition, reward systems contribute to the development of social norms that shape innovation-related behavior over time. Employees continuously observe which actions, attitudes, and achievements are rewarded and use this information to adjust their own behavior. As a result, reward mechanisms serve

as signals that communicate organizational priorities and expectations. When creativity, experimentation, and knowledge sharing are consistently recognized and rewarded, innovation gradually becomes embedded in the organizational culture. In this way, reward systems function not merely as instruments of motivation but also as social structures that influence collective behavior, reinforce organizational values, and support the long-term sustainability of innovation processes.

The impact of the reward system on performance within the social mechanism of innovation development

The relationship between reward systems and organizational performance is clearly visible in both successful and unsuccessful organizations. When an organization does not have clearly defined goals, innovation processes lack reference points, and as a result, the reward system cannot produce the expected effects. Therefore, goal setting is a crucial prerequisite, since it defines the desired state of the system that an organization aims to achieve from its current position (Drucker, 1954).

Careful definition of goals is not a waste of time or resources, but rather a necessary foundation for effective performance management. Once clear objectives are established and an efficient reward system is designed, measuring organizational performance makes the connection between rewards and results much more transparent. In this way, the reward system becomes a key social mechanism that aligns individual behavior with organizational innovation goals.

An effective reward system should define an appropriate level of compensation for employees while remaining flexible and economically sustainable. Modern organizations use a wide range of reward methods, including bonuses, salary increases, stock ownership, promotions, and other forms of incentives. Regardless of the form, all compensation systems are based on four key components: expected payment level, the relationship between rewards and performance, timing of reward delivery, and the method of compensation distribution (Milkovich, Newman, & Gerhart, 2014).

The expected level of payment represents the market value of performed work or completed tasks. However, determining this value can be complex, as it depends on factors such as education, skills, competencies, and personal characteristics of employees. The second component refers to the strength of the relationship between rewards and performance. It is important that reward systems clearly differentiate between levels of performance, avoiding situations where minimal improvements are rewarded equally to significant achievements. Most modern systems are linear or close to linear, meaning that rewards are proportional to performance and continuously encourage improvement (Gerhart & Fang, 2015).

Timing of reward distribution is also a crucial factor for both organizations and employees. One approach is long-term reward systems designed to retain key employees through delayed compensation mechanisms, such as stock vesting periods. This ensures long-term commitment and alignment with organizational goals. The final component is the form of compensation delivery, which is typically either cash-based rewards, such as bonuses, or equity-based rewards, such as shares. Cash incentives are more suitable for short-term, measurable results, while equity-based rewards are more effective for long-term innovative projects whose outcomes are realized over time.

Only after defining clear goals and establishing a structured reward system can organizations effectively measure performance and analyze the impact of rewards on outcomes. In this context, goals serve as reference points for both designing reward systems and evaluating performance. This creates a direct and proportional relationship between rewards and organizational performance, which becomes a critical indicator of long-term growth and innovation capacity (Kaplan & Norton, 1996).

Results and Discussion

Recent research results indicate that reward systems have a significant impact on organizational performance, particularly when viewed through the lens of innovation development and social dynamics within organizations. Effective reward systems positively influence employee motivation, creativity, and willingness to engage in innovative activities, which directly contributes to improved overall organizational performance (Amabile, 1996).

The discussion of contemporary theoretical approaches shows that employee motivation does not depend solely on financial incentives, but also on intrinsic factors such as autonomy, competence, and relatedness within the organization (Deci & Ryan, 2000). In this regard, reward systems that integrate non-financial incentives—such as recognition and opportunities for professional development—tend to have a stronger and more sustainable effect on innovative behavior.

Expectancy theory further suggests that employees evaluate the relationship between effort, performance, and rewards, making a clear and transparent reward system essential for achieving high performance levels (Vroom, 1964). When employees perceive a strong link between their performance and rewards, they are more motivated to improve their work and contribute to innovation processes.

Empirical studies also confirm that organizations combining financial and non-financial incentives achieve better results in terms of innovation and efficiency. For instance, systems that include long-term incentives such as stock options or career advancement opportunities foster higher commitment levels and reduce employee turnover (Gerhart & Fang, 2015).

From a social perspective, reward systems contribute to the development of an organizational culture that promotes collaboration, knowledge sharing, and risk-taking, which are essential components of the innovation process. Organizations that cultivate such a culture tend to achieve more stable growth and greater adaptability to environmental changes (Eisenberger & Rhoades, 2001).

Overall, it can be concluded that reward systems have both direct and indirect effects on organizational performance. Their effectiveness depends on the balance between financial and non-financial incentives, as well as on how well they are integrated into the broader social and organizational context of innovation.

Conclusion

The reward system represents a key social mechanism that influences organizational performance and innovation development. Its effectiveness depends primarily on clearly defined goals, since they serve as reference points for both designing incentives and evaluating achieved results. Without well-established objectives, reward systems lose their strategic purpose and fail to generate the expected impact on innovation processes and overall performance.

A well-structured reward system aligns employee behavior with organizational goals by linking performance outcomes with appropriate forms of compensation. These may include financial incentives such as bonuses and salary increases, as well as non-financial rewards such as recognition, promotions, and equity participation. Each form of reward has its specific role depending on whether the organization aims to encourage short-term efficiency or long-term innovative development.

From a social perspective, reward systems also shape organizational culture by influencing motivation, collaboration, and the willingness of employees to engage in creative and risk-taking activities. When employees perceive that their contributions are fairly recognized, their intrinsic motivation increases, leading to higher levels of engagement and innovation.

Ultimately, the impact of the reward system on performance within the social mechanism of innovation development is direct and proportional when properly designed and implemented. Therefore, it represents a crucial factor in ensuring long-term organizational growth, competitiveness, and sustainable innovation capacity.

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