

## Employee Bonuses as a Stimulating Factor for Productive Labor

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### Abstract

*The relevance of the topic of the article stems from the ongoing significance of remuneration in both scientific and practical discourse. While the general aspects of remuneration – its structure and essence – have been widely studied, the application of specific remuneration elements as methods to stimulate employees has received less attention. This applies in particular to the system of stimulation by establishing qualitative and quantitative indicators of the efficiency and productivity of employees in performing their duties. This article aims to address this gap by examining the application of Key Performance Indicators (KPIs) and the allocation of company shares as distinctive tools for incentivizing employees towards higher productivity. For this purpose, formal-logical, comparative, analytical and synthetic research methods are used. The authors conclude that bonuses based on KPI performance are a promising way to motivate employees and are designed to improve labor efficiency at the enterprise through material incentives for employees. Integrating KPIs into the remuneration system enables a clear differentiation of employee performance levels. For the KPI system to be effective, it must be absolutely transparent. A performance evaluation scheme must also be created, with the help of which employees will be motivated to achieve results. In order to fairly calculate payments based on KPI, all payments to the employee should be taken into account. The article also explores the distribution of company shares among employees as an increasingly popular mechanism for employee rewards. One notable advantage of this approach is that the original owner retains ownership of the shares while linking employee remuneration to dividends. Another model involves the sale of shares with options, either incorporated into the share purchase and sale agreement or established through a separate agreement. These mechanisms offer innovative pathways to align employee incentives with the company's success, fostering enhanced productivity and engagement.*

**Keywords:** incentives; bonuses; employee evaluation; key performance indicators; labor productivity; labor process management.

## Преміювання працівників як стимуляційний фактор продуктивної праці

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### Анотація

*Актуальність статті обумовлена тим, що питання оплати праці завжди перебувають у центрі уваги науковців і практиків. Утім, в основному, аспектами наукових досліджень є загальні питання оплати праці, її структура та сутність, тоді як проблеми використання різних елементів оплати праці працівників як методу стимулювання працівників вивчено недостатньо. Це стосується,*

зокрема, системи стимулювання шляхом установаження якісних і кількісних показників ефективності та продуктивності виконання працівниками своїх обов'язків. Саме тому метою цієї статті є аспекти застосування Key Performance Indicators та наділення акціями працівників як особливі стимуляційні фактори працівників на шляху до продуктивної праці. З цією метою використовуються формально-логічні, порівняльні, аналітичні та синтетичні методи дослідження. Автори дійшли висновку, що преміювання за результатами виконання KPI є перспективним способом мотивації працівників і покликане підвищити ефективність праці на підприємстві через матеріальне стимулювання працівників. KPI у системі оплати праці дає змогу чітко розмежовувати рівень результативності співробітника. Для того щоб ця система працювала, вона має бути абсолютно прозорою. Також має бути створена схема показників оцінки, за допомогою якої співробітники будуть стимулюватися на результат. Для справедливого розрахунку виплати на основі KPI слід брати до уваги всі виплати співробітнику. Крім цього, у статті розглядається розподіл акцій (часток) серед співробітників компанії на безоплатній основі, що поступово стає все більш привабливим механізмом преміювання працівників. Головною перевагою цієї опції є той факт, що власник частки не передає її працівникам. Відповідно до цієї опції власник акції (частки) встановлює виплату винагороди працівнику, розмір якої прив'язаний до дивідендів. Ще однією опцією є продаж акції (частки) з опціоном (включеним у договір купівлі-продажу акції (частки) або укладанням окремої угоди.

**Ключові слова:** заохочення; преміювання; оцінка працівників; ключові показники ефективності; продуктивність праці; управління процесом праці.

## Introduction

Employees are an important resource for the company because they have the talent, energy, and creativity that the company needs to achieve its goals, the performance sought by the company is someone who depends on the ability, motivation, and individual support received [1]. Good human resource performance is important for the survival of the organization. If the organization wants to proliferate, it must have human resources that can display good performance [2]. To achieve this goal, to stimulate employees to do their job well, it is appropriate for the employer to apply various methods of employee incentives while establishing objective criteria for assessing the quality of employees' performance of their duties. As stated by Mathis and Jackson [3], employee performance appraisal is the process of evaluating how well employees do their jobs when compared to a set of standards and then communicating that information to employees. Then the performance appraisal can be said to be effective if it includes two things, namely (1) the existence of a set of standards and (2) information communication (feedback). This statement is also supported by Dessler [4], who argues that effective appraisal also requires supervisors to set performance standards and requires that employees receive the necessary training, feedback, and incentives to eliminate performance deficiencies.

Performance measurement is still an interesting topic to study because there is not much empirical evidence that raises key performance indicators to measure employee performance. Ruky [5] states that key performance indicators are financial and non-financial metrics used by companies to measure their performance. Key Performance Indicators are usually used to assess the condition of a business and what actions are needed to address these conditions. Key Performance Indicators (hereinafter "KPIs") can be used as a reference for employees to achieve their work goals and measure how much employees have accomplished work targets. KPI is a management tool or instrument so that an activity or process can be followed, controlled (if it deviates, it can be recognized for correction), and ensured to achieve the desired performance [6, p. 36].

The issue of remuneration is always at the center of the attention of scientists and practitioners. However, the main aspects of scientific research are general issues of remuneration, its structure and essence, for example, in the scientific works of O.M. Yaroshenko, O.Ye. Lutsenko, N.M. Vapnyarchuk [7], N.O. Melnychuk, I.P. Zhygalkin and others [8].

The problems of using various elements of remuneration of employees as a method of stimulating employees have not been sufficiently studied by specialists. This applies in particular to the system

of stimulation by establishing qualitative and quantitative indicators of the efficiency and productivity of employees' performance of their duties. That is why this article will highlight the aspects of the application of KPIs and granting employees shares as special stimulating factors for employees on the path to productive labor.

## **Materials and Methods**

This study uses formal-logical, comparative, analytical, and synthesis methods. The object of the study is ways to motivate employees through KPIs and equity grants. Both primary and secondary data are employed as data sources. Primary data is information gathered from the initial source, an individual, or information collected from the first source at the site or research object. Secondary data is information acquired from other sources, often in the form of theories that are supported by the findings of earlier studies in the literature.

Library research methods are used to collect data and information. For this type of research, books and prior studies that are relevant to the topic being studied are read and reviewed in a library or through literary studies. In order to justify the findings in this study, this literature review seeks as much theory as possible.

## **Results and Discussion**

### ***Employee Bonus Using Key Performance Indicators***

Employees are rewarded with compensation for their accomplishments while performing their responsibilities. Financial compensation and non-financial compensation are the two types of remuneration. Salaries, bonuses, and incentives serve as indicators of financial compensation, but the supply of specific amenities, such as pensions, serves as an indicator of non-financial compensation [9, p. 32]. Direct and indirect financial compensation are two categories of compensation, according to Mohamad Syamsul [10, p. 275].

According to Yocki Pramudya [11], the purpose of providing compensation (remuneration) includes:

- a) Cooperation bonds with the provision of compensation, a formal cooperation bond is established between the employer and the employee;
- b) Job contentment employees will be able to satisfy their egoistic, social status, and bodily requirements with compensation, resulting in job happiness;
- c) Successful procurement the organization will find it simpler to hire qualified staff if the compensation scheme is designed to be sufficiently generous;
- d) Job contentment employees will be able to satisfy their egoistic, social status, and bodily requirements with compensation, resulting in job happiness;
- e) Successful procurement the organization will find it simpler to hire qualified staff if the compensation scheme is designed to be sufficiently generous.

KPI is a quantitative performance metric that is preapproved by management and reflects the key elements that contribute to a company's success [12, p. 67].

Modern companies are using and implementing key performance indicators – KPIs. KPI is a tool that can be used to effectively measure the goals set. In other words, it is an indicator of the effectiveness of an individual employee or the organization as a whole, thanks to which the company has the opportunity to achieve its strategic goals. Speaking about key performance indicators, it is worth noting such a scientist as Peter Ferdinand Drucker, was the one who stood at the origins of the "Management by Objectives" system. This system involves the process of identifying the company's goals and finding ways to achieve the goals set. Not only should the managers share the company's goals, but also the employees who take part in achieving the result. The main advantage of this system will be the effective work and motivation of employees, due to set goals for them. Specific time frames are determined, which allows you to gradually and efficiently perform the work.

In addition, a huge advantage is the cohesion of the management and employees, due to the focus on the overall result. KPI, like any other system, has its pros and cons. The advantages include the timely development of plans and strategies to achieve results. Evaluation of the results of current activities, any bonuses of the employee will depend only on the results and efficiency of his work. Each employee will be assigned responsibility for a certain part of the work, which in total allows for a more detailed identification of the stage at which errors occur or new ideas are born. It is worth noting that thanks to the KPI system, employees feel their contribution to the overall performance of the company. Speaking about the disadvantages of the system, more attention is paid to the fact that with a large number of different KPIs, ultimately the share of each individual indicator will be extremely small. Conversely, if the weight of one indicator is disproportionately large compared to others, it can lead to imbalances and distortions in the workflow. Setting key performance indicators deserves special attention. If an organization sets unattainable KPIs for employees, this will only demotivate the employee and direct him/her to an ineffective result.

KPIs can be categorized based on different criteria, such as leading indicators and lagging indicators. Leading ones mainly provide an opportunity to project future progress; lagging ones help in analyzing the current situation. Furthermore, they can be divided into target, process, project, and external environment indicators. Target indicators show how close the company or an individual employee is to their goal. Process indicators reflect how effectively and rationally we are moving towards the set goals, and most importantly – whether it is possible to reduce the time and costs to achieve the goal, without the risk of a poor result. The essence of the project indicator is the effectiveness of the implementation of a project or its individual stages. External environment indicators should be taken into account when developing goals, without this indicator, the wrong path to achieving goals may be chosen. It is also worth noting individual, team, and project KPIs. The specifics of this category of indicators include an assessment of the volume and level of complexity of tasks for each member of the team, the flow of tasks for each employee, and the time of work.

KPIs in the remuneration system make it possible to clearly evaluate the performance levels of employees. In order for this system to work, it must be transparent, and there are certain approaches to the introduction of this system into the organization. One of the principles of introduction is the rule "10/80/10", which means that the organization should have ten key performance indicators, and the number of production indicators should not exceed eighty and have ten key performance indicators. Moreover, a scheme for evaluating indicators should be created, with the help of which employees will be motivated to achieve results.

Performance indicators must coexist in harmony with the strategy and goals of the organization. An employee's income consists of a salary, allowances, and bonuses so that key performance indicators, in turn, can relate to the bonus part. In order to fairly calculate payments based on KPIs, an employer must take into account all payments to the employee. An employee's remuneration consists of material and non-material remuneration. Material remuneration includes cash payments such as salary, bonus, and merit bonuses. It is also worth emphasizing that benefits should be considered a separate category within material remuneration. Non-material remuneration includes the opportunity for career growth and training at the company's expense. If the organization has a clearly structured remuneration system, then employees in this case receive a fair salary.

Bonuses based on KPI performance are a mandatory step in motivating employees and are designed to improve labor efficiency at the enterprise through material incentives for employees. The bonus process should be based on several principles:

1. Objectivity – the bonus amount is determined based on the KPI assessment.
2. Predictability – the employee must understand what amount of remuneration (bonus) they will receive depending on the KPI performance.
3. Adequacy – a higher remuneration is established for work of greater intensity.
4. Timeliness – the bonus for KPI performance is paid in accordance with the regulatory documents.

When setting KPIs and target values to increase staff motivation, the levels of performance of indicators are established, i.e. not only planned values (target), but also permissible deviations from the planned figures, which can be called differently: lower/upper level of performance, threshold value, and ambitious value. The threshold value is a target value reflecting the minimum permissible level of goal performance for the organization (from 60% to 80% of the target value). The planned value is the value at which the set goal is fully achieved by 100%. The ambitious value is the maximum level of the target value, set in cases where exceeding the target value brings measurable benefits (more than 100%, for example, 150% of the target value). It is recommended not to set monthly ambitious values, at least at the initial stage of implementing the KPI system, since this greatly increases the requirements for the correctness of target values for indicators, as well as their tracking. However, at the end of the year, this is quite possible.

The bonus is calculated based on the employee's salary in effect in the reporting month. In the event of non-fulfillment of KPIs, the reasons for their non-fulfillment are analyzed and the degree of influence of employees on their non-fulfillment is determined. Based on the results of the analysis, the actual percentage of fulfillment for a separate KPI for calculating the bonus for the month can be increased by agreement with the head of the service of the relevant area. KPIs offer an effective way to measure and track a company's performance across many different indicators. By understanding what KPIs are and how to implement them correctly, managers can better optimize the business for long-term success.

### ***Bonus for Employees by Granting Them Shares in the Authorized Capital of the Company***

Distribution of shares among the company's employees on a gratuitous basis is an institution from Anglo-Saxon practice, which is gradually becoming an increasingly attractive bonus mechanism in various countries, in particular in France, where many companies successfully use this institution, in particular:

1. "Sanofi": in May 2018, gratuitous distribution of shares "determined by performance" among the employees of the Group's companies; the number of shares distributed varied depending on the achievement of various criteria [13; 14].
2. "TotalEnergies": from May 2010 till now, there has been a gratuitous distribution of shares among more than 100,000 employees of the Company in 124 countries. Depending on the country, the formulas vary, in particular the 2+2 formula (two years to acquire until becoming a shareholder and two years to retain) or the 4+0 formula (four years to acquire, without obligation to retain). It should be noted that at the beginning of 2015, the Group's employees owned approximately 4.72% of the capital, representing 8.63% of the voting rights [15].
3. GDF Suez: in July 2009, a gratuitous distribution of shares, i.e., the distribution of almost 3.8 million shares among the Group's 200,000 employees [16].

### ***"Phantom plan" ("phantom" share or "phantom" stock)***

The main advantage of this option is the fact that the owner of the share does not transfer the share to employees. Following this option, the owner of the share (share) sets the payment of remuneration to the employee, the amount of which is tied to dividends (i.e. if the "phantom share" is 1% of the authorized capital of the company, then the remuneration will be equal to dividends from 1% of the authorized capital). Such a "phantom share" gives the right to remuneration only while the employee is an employee of this organization, and at the same time, it does not give the right to vote and participate in decision-making. Thus, the "phantom share" provides only the illusion of owning a share (stock) in the authorized capital of the company, but at the same time it is an additional incentive for the employee (company manager) and for the owner of the share (share) a guarantee that his share in the company will not be diluted. It is worth noting that a "phantom share" represents a certain risk for an employee during the reorganization of a legal entity, since a new legal entity appears, where the safety of "phantom shares" may be questioned, since it is not provided with the necessary number of guarantees of the rights of employees.

### ***Bonus by Sale of Shares***

Another option is the sale of a share with an option (included in the share purchase agreement (share) or with the conclusion of a separate agreement). There are several options for implementing this option, namely, the inclusion of an option that allows the transfer of a share (stake) in the company to an employee if he meets certain conditions or the immediate sale of a share (stake), but due to the inclusion of mechanisms to protect the owner, namely:

- automatic resale of a share (stake) at a fixed price after termination of the employment contract;
- a detailed description of the circumstances under which the mechanism for the reverse transfer of a share (stake) in the company to its owner at a fixed price will be activated;
- prohibiting the employee from selling his shares in the company while he is the owner of this share;
- inclusion of a restrictive mechanism for the implementation of the preemptive right to purchase a share, namely if the mechanism for the reverse sale of a share in the company by an employee to the owner is launched, other employees who also have shares may have a preemptive right to purchase the share of the above-mentioned employee;
- concluding an agreement on the exercise of the rights of shareholders (participants) of the company, under which they undertake to exercise their rights in a certain way and/or refrain from (refuse) to exercise the above-mentioned rights, including voting in a certain way at the general meeting of participants of the company, by agreeing on voting options with other participants;
- resolving the issue with the right of inheritance;
- resolving the issue regarding a situation related to divorce.

Among the above options, the most crucial are the options that are related to the divorce or death of an employee of the company who was provided with shares (interests) on a gratuitous basis. Much attention is paid to the legal regulation of these options in France, in particular:

- in France, in the event of a divorce of an employee of the company who was provided with shares (interests) on a gratuitous basis, the question arises when one of the spouses, married within the framework of jointly acquired property, holds options on the date of divorce, some of which could be exercised, which allowed him or her to become a shareholder (participant). Are shares (interests) received as a result of a bonus included in the jointly acquired property? The decision of the French Court of Cassation gave a negative answer [17];
- in the event of the death of an employee of the company who was provided with shares (interests) on a gratuitous basis, in accordance with Art. L. 225-183 of the French Commercial Code [13] provides for the possibility for heirs to exercise options within six months, which is the period of recovery. However, it is not uncommon for these heirs to be unaware of the existence of such options and thus lose the benefit of their exercise. Can they then accuse the company of not having warned them? The answer is negative. According to the Court of Cassation, which considers that the issuing company is not bound by the obligation to inform the heirs [18]. Can they then act against the notary? The answer is negative since the Court of Cassation states that the duties of a notary involved in the liquidation of an estate do not include informing and advising the heirs on the advisability of using the subscription options held by the deceased [19]. It would be fairer to impose on the company the duty to inform, if not the heirs, then at least the notary, who will try to find out the state of the estate – such as bonuses or the remainder of the salary of the deceased employee to his employer. It is worth noting that many companies inform the heirs of the existence of options on their own initiative.

## **Conclusions**

Employees should be interested in working for a specific employer, understanding that the employee is valued, that their level of knowledge is important for the team and for the success of the enterprise as a whole. That is why in modern conditions, different methods of stimulating employees to make even more efforts for production efficiency are often used.

Bonuses based on the results of KPIs implementation are a promising way of motivating employees and are designed to increase labor efficiency at the enterprise through material incentives for

employees. However, unattainable KPIs only demotivate the employee and direct him to an ineffective result.

KPIs in the remuneration system allow you to clearly distinguish the level of the employee's result. In order for this system to work, it must be absolutely transparent, and there are certain approaches to introducing this system into an organization. One of the principles of introduction is the "10/80/10" rule, which means that the organization must have ten key performance indicators, and the number of production indicators should not exceed eighty and have ten key performance indicators. A scheme for assessing indicators should also be created, with the help of which employees will be motivated to achieve results. In order to fairly calculate payments based on KPI, all payments to the employee should be taken into account.

Distributing shares (stakes) among the company's employees on a gratuitous basis is an institution from Anglo-Saxon practice, gradually becoming an increasingly attractive mechanism for rewarding employees. The main advantage of this option is the fact that the owner of the share does not transfer the share to employees. In accordance with this option, the owner of the share establishes the payment of remuneration to the employee, the amount of which is tied to dividends.

Another option is to sell a share with an option (included in the share purchase and sale agreement or with the conclusion of a separate agreement). There are several options for implementing this option, namely the inclusion of an option that allows the transfer of a share in the company to an employee if he meets certain conditions or the immediate sale of the share, but due to the inclusion of owner protection mechanisms.

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**Suggested Citation:** Sereda, O.H., & Lutsenko, O.Ye. (2024). Proportionality of Intervention and the Balance of Public and Private Interests in Covert Evidence Collection in Criminal Proceedings. *Theory and Practice of Jurisprudence*, 2(26), 36-43. [https://doi.org/10.21564/2225-6555.2024.2\(26\).317526](https://doi.org/10.21564/2225-6555.2024.2(26).317526).

Submitted: 16.10.2024

Revised: 22.11.2024

Approved: 19.12.2024

Published online: 30.12.2024