

REWARDING EMPLOYEES IN FOREIGN COMPANIES WITH HEADQUARTERS IN SERBIA

Nadja PETROVIĆ
Adriana RADOSAVAC
Darjan KARABAŠEVIĆ

***Abstract:** In order for an organization to operate successfully, it is very important to motivate own employees. In addition, it is important to keep an eye on needs, habits, interests, expectations, and values of the individual employee as well as the collective. It is important to cooperate as a team and develop a sense of community in order to achieve the goals and targets of the organization much faster and easier. One of the basic goals in the field of human resources of every company is the motivation and engagement of employees, which is achieved only if the individual believes that he is sufficiently respected, deservedly rewarded and satisfied with his position in the organization. Through the years, foreign companies are increasingly occupying the market in the Republic of Serbia and following European models of rewarding own employees. Motivation of employees is in the form of material rewards (European salary) and immaterial ones, which include free days, vacations ... Today, the most common type of motivation is certainly financial reward and is an integral part of the system of rewarding (stimulating) employees. By ensuring and improving the material status and meeting other needs of employees, companies are creating a good business climate and bring the personal interests of employees closer to the goals of the organization.*

***Keywords:** motivation, employees, international company, rewarding, human resource*

INTRODUCTION

Undoubtedly the most important resources of any organization are its employees. Employees of the organization ensure the achievement of competitive advantage and business success. Thus, the results of the work directly depend on the motivation and rewarding in the organization (Ulutaş et al., 2020; Janovac et al., 2018; Đukić et al., 2018; Karabašević et al., 2016a; 2016b; Urošević et al., 2016a; Urošević et al., 2016b).

Rewarding of the employees is the most complex activity of human resource management for several reasons: above all, it is equally important to all employees, helps to modify employee behavior and represents the largest part of

operational costs within each company. In addition to the basic salary, the total salary consists of financial rewards that depend on employee performance, and which are determined based on the contribution of individuals or whole group in achieving the goals of the company.

The reward system is applied through material and immaterial motivational strategies. In the past, material compensations were used as the only motivational tool, while today the analysis of company practices shows that immaterial rewards are much more applied strategies (Bahtijarević, 1999: 606). Material strategies imply the application of material stimulus, where money is the basic tool of strategy (Cerovic 2013: 212).

In a broader sense, the reward system is also a system for evaluating employee performance, given that evaluations play an important role in determining salaries, salary raises and other types of stimulation. The main role of rewarding in the organization is to harmonize the individual interests of employees and strategic goals of the company, which is achieved by retaining and attracting capable people, encouraging employees to develop their skills and to constantly improve, as well as to create a culture in which employees care about the success of the company.

Human resource management has the task of creating, and then implementing a reward system. It consists of several key arguments:

- the reward system is crucial for every employee,
- the main goal of the reward system is to motivate all employees,
- salary of every employees are the main component of total costs, so they can affect the competitiveness of companies in the market,
- employees through collective agreements (syndicate, unions) participate in determining salaries,
- the costs of living varies over time.

The earnings system includes two forms: direct and indirect earnings. (Bogicevic, 2011:291).

Direct earnings consist of elements of earnings which employees receive in cash as a form of the basic salary, the increase in the basic salary in order to maintain purchasing power (standard of living) of employee and earnings that depend on working performance. The basic salary is the salary that the employee receives based on the work he performs, regardless of working performance and results. Performance-based earnings are an element of earnings that are obtained based on an individual's contribution to the achievement of organizational goals, the results of the group or team in which he works, and they can be short-term or long-term.

Indirect forms of earnings are different types of benefits offered by the employer and which are regulated in detail by law. Benefits are form of

earnings related to status and characteristics of employee, and they may include: free meals or meals at lower prices, usage of company phone and car, free recreation... Benefits as elements of earnings aim to provide security for employees. There are two types of benefit programs:

- 1) Employee protection program - health insurance, social insurance, disability insurance, pension (retirement) insurance, life insurance, etc.
- 2) Paid absence from work – vacation, military service, sick leave, maternity etc.

THE FAIRNESS OF THE EARNING SYSTEM

The reward system affects the motivation of employees and influence their perception of whether the reward is fair. To make a system stimulation achieve the desired effects, it must be simple, specific, measurable and fair (Przulj, 2002: 155).

Therefore, there are three basic components of fairness (justness): internal justness, external justness, and individual justness (Petkovic, 2016: 512).

Internal justness - exists when the difference in salaries is set on the basis of the difference in the complexity of particular jobs and is established through defining the structure of basic salaries. The structure of basic salaries can be defined in two ways: traditional and modern.

The traditional approach is a process in which jobs are evaluated according to established criteria such as: required skills, education, working experience, effort invested, degree of responsibility, working conditions. The assessment is addressed to differences between jobs, not differences between employees. Job evaluation determines the relative value of particular job within the company and the purpose is to create a salary that will eliminate injustice in rewarding process. The most common methods used during job evaluation are: (1) job ranking method, (2) job classification method, (3) point method, (4) method of factor comparisons.

The job ranking method is the easiest method according to which jobs are ranked in order of importance or value. The importance and value of a specific job for the company is reflected in the amount of responsibility required for a that particular job.

The job classification method is based on classifying jobs into defined categories. The value is determined on the basis of a scale that contains precisely defined differences in the degree of requirements, duties and responsibilities.

The points method analyze and compare jobs based on common factors that are scored with a different number of points, and the number of points depends on the importance of that factor.

The method of factor comparison is an analytical method and represents a combination of point methods and one or more ranking methods.

However, in recent years, the traditional approach has received numerous critics, among whom the most significant is the fact that the traditional approach does not have the ability to create perception of justice amongst employees, because they are quite individual, subjective and often wrong f.e. the belief that earnings can and should only be positively adjusted (increased) which is not always true.

Due to the great dissatisfaction with the traditional approach, a modern approach is emerging. In addition, the expertise (competence) and ability (skills) of employees are assessed. A direct link is established between the basic salary and the abilities, knowledge and skills of employees, regardless of whether they are necessary for them to perform their assigned job.

The application of this approach leads to an increase in productivity and quality, and reduced absence from work, because employees are motivated to work more, get better grades, and thus higher earnings.

External justices - The company creates a competitive wage policy in the market to attract the highest quality workforce. It exists only if there are equal earnings on the same or similar jobs in different companies, whether they are of the same or different industries. In addition to the job evaluations, it is necessary to analyze how much the jobs we are monitoring, are paid in different companies. After that, a strategic decision should be made about how the company will determine salaries in relation to competitors. Three strategies are available to the company (Petkovic, 2016:512):

1) "*Salary Advantage*" implies that the company offers higher salaries than competitors. Their goal is to attract the best people, maintain the satisfaction of current employees and secure leading role in market, with requirements like increased costs of operations and a higher level of productivity.

2) "*Equality in salaries*" is tactical approach in which company offers almost or exactly equal earnings compared to competitors. The goal is to ensure operational cost competitiveness.

3) "*A step behind competition*" means that the company gives slightly lower salaries compared to competitors, but they maintain competitiveness by offering certain benefits: better working conditions, permanent employment, paid sick leave, longer vacations etc.

The combination of the previous two tactics (internal and external) leads to the emerging of individual equality where uniformity of salaries is required

for the same or similar jobs within single company. Jobs are grouped by value into pay grades and the minimum, average and maximum salary are determined for each pay grade. There are three basic criteria for positioning and advancing of an individual within a pay grade. (Northouse, 2008: 60):

1. Experience and years of service - when the salary increase is based solely on the increase in length of service,
2. Achieved performance - when higher salary increase can be achieved by employees who demonstrated above-average performance.
3. Individual abilities and knowledge - when the salary is increased on the basis of improving employees personal ability and knowledge.

EVALUATING EMPLOYEE PERFORMANCE

Employee performance appraisal is defined as a process organized and continuously monitored, evaluated, guided and adjusted in accordance to their results and their work behavior towards achieving company goals (Jovanović, 2004: 204). The process in which the individual contribution of employees to their achievement of company goals within a specific period of time are evaluated are: personal characteristics of employee, employees behavior and achieved results. There are 4 criteria – performance indicators for evaluating employees (Dessler, 2007:153):

- 1) Validity - assessment of relevant job characteristics,
- 2) Reliability - the degree of agreement of the assessors,
- 3) Convenience - costs of creation and implementation,
- 4) Freedom from persuasion - equal treatment of all employees and reduced degree of assessor's subjectivity.

Selected persons are responsible for the evaluation process, and they will precisely evaluate the performance of employees. This task is usually assigned to the immediate supervisor of particular employee, but acceptable choices are also colleagues, employees themselves, senior managers, and finally - clients, customers or external evaluators. The choice of assessors is very important, in order to avoid the shortcomings of individual solutions, and more often grades are collected from several sources in order to apply the concept of assessment "360 degrees" (Pfau, 2002:55) more precisely. Each employee receives performance ratings from four sources:

- 1) from the immediate supervisor,
- 2) from his subordinates,
- 3) from associates at the same hierarchical level and
- 4) by himself.

The main purpose is to ensure the collection detailed information on individual performance from all environments in which the individual performs work activities. The evaluation cycle is a defined period within whom evaluation process has to be executed. Two models have been developed. In the first model, the assessment is performed continuously throughout the year due to the fact that the beginning and the end of the evaluation cycle are related to employment. While in the second model all employees are evaluated at the same time, and this is usually at the end of the year.

The evaluation method is organized in two groups: objective and subjective evaluation. Objective component is oriented towards quantitative performance of employees, while subjective component is more addressed to the assessment of personal characteristics of employee, their behavior, but for measuring results as well.

Such evaluation can bring both positive and negative effects. As for the positive effects, they reflect in an motivational and productivity increase resulting in earnings and promotions obtained on the basis of individual contributions. Additionally, organizational goals become more acceptable to employees and evaluation further helps in planning and developing training programs. The negative consequences are: permanent deterioration of the relationship between the participants, investments without expected effect, loss of time, misinformation, etc.

EARNINGS BASED ON ACHIEVED PERFORMANCE

In addition to the basic salary within the companies, a very important item of total earnings is the part where employees earn bonuses based on their performance. Performance-based rewarding focuses on the value of the contribution of an individual or group (team) to the achievement of a business result. The amount of earnings is based on the size of that contribution, which is expressed in the results achieved. The main goals to be achieved by introducing this component of total earnings are:

1. achieving the strategic goals of the company, through rewarding those performances that have contributed to the strategy implementation,
2. strengthening organizational norms, by sending signals what kind of behavior is desirable within the company,
3. motivation of employees through establishing direct connection between achieved performance and gained reward,
4. presenting of clear difference between good and bad performance through rewarding of good ones.

When the salary system is introduced, it is necessary to define certain components which are: types of performance and methods of their measurement, type of rewards, frequency of awarding and providing support to employees.

There are two types of performance-based earnings. The first would be short-term or long-term according to whether they motivate employees to achieve some short-term or long-term goal, and the second type would be on individual or group base.

Short-term form of rewards - aims to encourage employees to achieve short-term results, usually at period of one year. There are several forms: raise, bonus, special rewards, individual and group stimulations (Petkovic, 2002: 495).

Parameters of reward have to be decided by the employer, usually once a year at the end of the year, and in other cases more often than that.

The bonus is a one-time payment to employee, given at the end of the year for the achieved goals - the main advantage is that it depends on the final success of the company business. In periods when the company is performing below expected level or even creating a loss, bonuses are much lower or not assigned at all.

Special awards are a one-time reward to employee for an important achievement or effort - it encourages employee to be innovative and willing to put in more work effort.

Long-term form of rewards - are performance-based earnings that are given for period of more than one year, since their role is to motivate employees to increase the value of the company in the long run. The basic types of long-term stimulation are (Petkovic & Janjicijevic, 2002: 517):

- participation in ownership,
- options,
- rewards in conditional shares/stocks,
- the rights to the profit created by the increase of the share/stock value and
- "phantom" shares/stocks.

Ownership participation is a form of long-term group stimulation through employee participation in the ownership of the company - employees are directly linked to the success or failure of the organization in which they work.

An option is a long-term individual form of earnings and it represents the right to purchase a certain number of shares at a certain time, at the price determined when taking the option. The goal of this type of earnings is to motivate managers by giving them a share in the company and thus encourage them to think like owners, since their profit grows when there is an increase in

share value during the validity of the option, but unlike owners they do not bear any risk of investing their capital.

However, the criticism for this method lies in the fact that the right to an option does not mean the purchase of shares, so it is suggested to introduce the right to buy the company's shares and thus take a higher risk of the company's business. Gifts in shares, where employees are offered a package of shares at a very low price, provided that the shares cannot be sold before a defined period of time, and the right to receive this form of earnings is the length of service in the company.

Phantom company shares are also a form of individual earnings. Employees are given the right to a defined package of shares, which can be redeemed at the strictly defined time, giving employees the right to the full value of the share package and not just profit from the price increase with benefit of not requiring investment in buying shares.

Individual stimulation - are paid to employees for the achieved goals in the foreseen period of time based on individual performance, but do not become an integral part of the salary. However, they can cause a lot of negative effects such as: the arising conflict between employees who seek to maximize the quantitative result, and managers who are in charge and responsible for quality; in that case employees neglect those activities that do not have a visible result such as equipment maintenance, cleaning, etc.

Group stimulation - represent a form of earnings where the size of the stimulation is determined on the basis of group performance, measured at the level of the team, company department or the entire company (Cascio, 1995:396). These types of stimulation potentially lead to problems. They are a frequent source of conflict due to the fact that not all individual contributions within the group are equal, also the results of the group are under the control of strong group norms, so it is possible that the additional efforts of individual members are useless.

RISK EARNINGS - REWARDING OF SPECIAL CATEGORIES OF EMPLOYEES

This salary program implies that employees take the risk of the size of their salary, sometimes it could be less than the market, and sometimes much higher. These types of salaries are used to reward two categories of employees - sales staff and managers. Rewarding sales staff is based on their performance, however it is not always possible to monitor their work. According to some sources, only 20% of the sales staff have earnings that rely entirely on salary, 30% have defined net salary, and about 50% have earnings that represent a combination of salary and individual or group stimulation (bonuses). Depending on their job, we distinguish two types of

rewards, namely: net salary and commission fee. The net salary of sales staff whose role is customer service, requires knowledge of the technical characteristics of the product without the need to conclude the sale. Other category of employees are expected to bring in new customers and close sales and their incentives are in the form of commissions. The commission is usually determined as % of sales value, and the amount is determined based on some of the following indicators: revenue, number of new customer acquisitions, number of products sold (sales target reached), price difference (profit margin), customer satisfaction, team performance.

Rewarding managers is another specific category where their role in the company structure requires special type of reward. Essentially, the largest part of a manager salary is created with right to the options. In addition to options, there are gifts in shares and phantom shares.

THE MOST IMPORTANT FORM OF REWARDING - RESEARCH CONDUCTED BY EUROPEAN INSTITUTIONS

In 2014, the research was conducted by a network of public opinion research agencies, with the support of several European institutions and associations in the countries of Northern, Western and Eastern Europe. The number of participants was 35,614 from 1,260 companies. Based on the research results, for the 38.5% of participants the most important are form of reward are cash prizes and bonuses while 18.9% stated that the most important is additional pension insurance. Next group consists of 11.4% respondents which have chosen days off work, then 8.6% voted for additional health insurance, 5.2% for the possibility of a flexible agreement on annual leave, 4.3% for children scholarship and education, 3.00% for job relocation closer to home, 2.9% for other forms of rewards, 2.7% for paid training and 1.9% for paid children pre-school. (Rajić, 2015).

Based on above mentioned research, conclusion is that the priority motivation of employees are mostly material earnings, which is the majority driver of motivation in Serbia and in other countries as well.

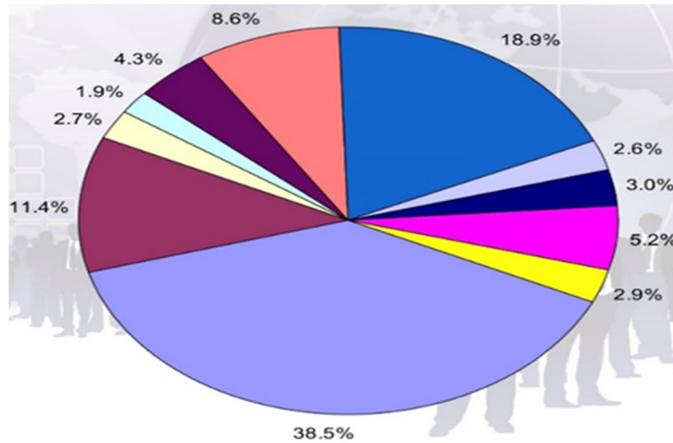


Figure 1. The most important forms of employee rewarding
 Source: author's calculation (Rajić, 2015)

The model of rewarding in the Republic of Serbia is still bureaucratized and following the model that was popular during the previous years. Modern forms of rewarding are at a very low level in terms of their practical application, but foreign companies in Serbia are increasingly introducing newer and more modern methods.

Courtyard by Marriott Belgrade City Center is a foreign company, a hotel that has a highly developed system of rewarding and developing employee motivation. The "main tool" used in rewarding employees is indirect earnings. These include the use of the official cell phone assigned to each employee, free meals (lunch), free of charge use of the hotel gym, free use of hotel parking space, discounted prices for the bookings in the Marriott chain of hotels in other countries, periodical training of employees, days off work etc.

In addition to the previously mentioned indirect earnings, material earnings in the form of bonuses are also used. This type of material earnings is specifically applied in the sales and marketing sector. These bonuses are applied both on a monthly and quarterly level every time when the quota of sold accommodation units (target) determined by the top hotel management is exceeded. This hotel is among the top 5 hotels in Serbia, in terms of quality and efficiency. Based on this example, we can see that employee motivation and rewards policy have an impact on the overall performance itself together with final result. In many companies we can see employees who have the necessary skills and competencies, but the performance is not adequate due to an insufficiently developed system of remuneration and motivation. That is why it is necessary to create a efficient reward system that, in addition to earnings, will provide positive atmosphere where employees will be satisfied with their work and where they will have the opportunity to progress and improve their competencies.

CONCLUSION

Employees are attracted to do those jobs where they feel like equal members and contribute to the development of their company, while provided with conditions for advancement and the opportunity to express their creativity and ideas. If this are the main principles of work, employees will be adequately rewarded, motivated and will work even better and remain loyal to the company in the long run.

References

- Bahtijarevic, S. F. (1999). Human Resources Management, Golden marketing, Zagreb, p.606. *[in Croation]*
- Bogicevic, M. B. (2011). Human resource management, Publishing Center of the Faculty of Economics in Belgrade, pg. 291 – 302. *[in Serbian]*
- Cerovic, S. (2013). Human resources management in the hotel industry, Belgrade, p. 212. *[in Serbian]*
- Dessler, G. (2007). Fundamentals of human resource management, Data Status, Beograd, p. 153. *[in Serbian]*
- Đukić, T., Janošik, M., & Karabašević, D. (2018). Motivation of employees as a part of human resources management. *Quaestus*, (13), 127-138.
http://ebooks.ien.bg.ac.rs/139/1/ss_2011_01.pdf, date of access: 23.03.2021.
<http://omegact.biz/organizaciona-transformacija/izrada-stimulativnih-sistema-nagradivanja/>
 date of access: 23.03.2021.
- Janovac, T., Karabašević, D., Maksimović, M., & Radanov, P. (2018). Selection of the motivation strategy for employees in the mining industry using the GRA method. *Mining and Metallurgy Engineering Bor*, (1-2), 157-164.
- Jovanović-Bozinov, M., Kulić, Z. & Cvetkovski, T. (2004). Management human resources. White City. Megatrend University, p.204. *[in Serbian]*
- Karabašević, D., Stanujkić, D., Urošević, S., & Maksimović, M. (2016a). An approach to personnel selection based on SWARA and WASPAS methods. *Bizinfo (Blace) Journal of Economics, Management and Informatics*, 7(1), 1-11.
- Karabasevic, D., Zavadskas, E. K., Turskis, Z., & Stanujkic, D. (2016b). The framework for the selection of personnel based on the SWARA and ARAS methods under uncertainties. *Informatica*, 27(1), 49-65.
- Northouse, G. P. (2008). *Leadership: theory and internship*, Data status, Belgrade, p.60. *[in Serbian]*
- Petkovic, M., Janicijevic, N. & Bogicevic, B. (2002), *Organization*, University in Belgrade, Faculty of Economics str. 495 - 499, 517. *[in Serbian]*
- Petkovic, M., Janicijevic, N., Bogicevic, M. B. & Aleksic, M. A. (2016). *Organization*, University in Belgrade, Faculty of Economics pp. 512 – 516.
- Pfau, B. (2002). Does a 360-Degree Feedback Negatively Affect the Company Performance, *HR Magazine*, p.55
- Pržulj, Ž. (2002). *Human Resources Management*, Institute for Small Development and medium enterprises, Belgrade, p. 155. *[in Serbian]*
- Rajić, D. (2015). Regional Conference “Wages and Remuneration Models in Countries Southeast Europe” Belgrade, 28-29. May. *[in Serbian]*

- Ulutaş, A., Popovic, G., Stanujkic, D., Karabasevic, D., Zavadskas, E. K., & Turskis, Z. (2020). A New Hybrid MCDM Model for Personnel Selection Based on a Novel Grey PIPRECIA and Grey OCRA Methods. *Mathematics*, 8(10), 1698.
- Urošević, S., Karabašević, D., Maksimović, M., & Stanujkić, D. (2016a). Impact of demographic factors on motivation and satisfaction of employees in the leather and footwear industry. *Tekstilna industrija*, 64(3), 45-55.
- Urošević, S., Milijić, N., Đorđević-Maljković, N., & Karabašević, D. (2016b). Indicators of motivation and employee satisfaction in public enterprise: Case study of PE'Post of Serbia!. *Industrija*, 44(3), 77-95.
- Vukotic, S. (2009). Human resource management, University Union, Faculty for entrepreneurial business, Belgrade. *[in Serbian]*

NOTES ON THE AUTHORS

Nada Petrović, Teacher Associate at the Faculty of Management, Economics and Finance, University Business Academy in Novi Sad, Faculty of Applied Management, Economics and Finance in Belgrade, Jevrejska 24, 11000 Belgrade, E-mail: nadja.petrovic@mef.edu.rs

Adriana Radosavac, Associate Professor at the Faculty of Management, Economics and Finance, University Business Academy in Novi Sad. Faculty of Applied Management, Economics and Finance in Belgrade, Jevrejska 24, 11000 Belgrade, Serbia; Research Associate in Social Sciences – Economics, E-mail: adrianaradosavac@mef.edu.rs

Darjan Karabašević, Associate Professor at the Faculty of Management, Economics and Finance, University Business Academy in Novi Sad. Faculty of Applied Management, Economics and Finance in Belgrade, Jevrejska 24, 11000 Belgrade, Serbia; Research Associate in Social Sciences – Economics, E-mail: darjan.karabasevic@mef.edu.rs