

Kostadinovic, Ivan; Hanic, Azra H.; Vukovic, Darko B.

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Application of the Principle of Fairness in the Distribution of Rewards: Evidence from Serbia and Bosnia & Herzegovina

Ivan Kostadinovic, Azra H. Hanic, Darko B. Vukovic

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Ivan Kostadinovic¹ Azra H. Hanic^{2,3} Darko B. Vukovic^{4,5}

ivan.kostadinovic@konstantinveliki.edu.rs haniczra@gmail.com vdarko@hotmail.rs

1 Faculty of Law, Security and Management, Niš, Serbia.

2 South Ural State University (National Research Univeristy), Chelyabinsk, Russia.

3 Belgrade Banking Academy, Belgrade, Serbia.

4 Perm National Research Polytechnic University, Perm, Russia.

5 Geographical Institute "Jovan Cvijic" of Serbian Academy of Sciences and Arts, Belgrade, Serbia.

Application of the Principle of Fairness in the Distribution of Rewards: Evidence from Serbia and Bosnia & Herzegovina

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Abstract

Research background: In the search for additional data, which would enable the conclusion on the implementation of the principle of fairness in the distribution of rewards as one of the key ethical concepts in relations between employers and employees, a survey was conducted, which entailed the corresponding proportional number of respondents from Serbia and Bosnia and Herzegovina, to enable comparison of results. On the basis of secondary data, this research started from the assumption that the principle of Procedural justice in the distribution of income in Serbia and B&H has been insufficiently applied in practice in organizations in these two countries. It has been assumed that the ownership structure of the company (organization) affects the degree of implementation of the principles of fairness.

Purpose of the article: The aim of this paper is to identify elements of the system of rewards which determine the perception of fairness among employees and to what extent they are implemented in organizations in Serbia and Bosnia and Herzegovina. In this paper the authors are looking for the identification of elements that form the basis of fairness in the distribution of rewards and their importance for the perception of fairness.

Methodology/methods: Methodologically, the paper is based on the analysis of the existing literature, secondary sources and statistically processed results of the

survey conducted in 328 organizations in Serbia and Bosnia and Herzegovina. The results of this analysis indicate that the elements of fairness in distribution of rewards were neglected in the organizations analyzed in this research.

Findings: According to the presented data of the research conducted on the sample of 325 respondents in Serbia and Bosnia and Herzegovina hypotheses are confirmed that the principles of procedural justice are not sufficiently applied in organizations in Serbia and Bosnia and Herzegovina. Their application depends on the form of ownership. Low perception of procedural practice in distribution of rewards may have negative impact on business results, which can be the subject of some future research.

Introduction

In the market economy it is believed that in the transaction between the employee and the employer fulfils some of their interests and achieves certain gains. The employer has the opportunity to make profit as the result of the ability and commitment of the employees and the employees can obtain equitable remuneration by investing their knowledge, skills and efforts (transactional gains), which is the basis of their existence. However, the importance of money to meet the entire range of human needs has to be emphasized as well as a number of other gains (Milkovich & Newman, 2002). Therefore, the application of the principles of fairness in the distribution of rewards is of special importance for both the employees and employers. For employers, this principle has significance as a factor in the balance between costs and revenues, including the need for price competitiveness, as well as labour and product markets, including also motivational effect on work performance and overall business results.

Nowadays, wages are not only the basis of human existence, but also the expression or measure of different values, including the values of individual abilities and work results. It depends on a whole range of factors, both internal and external. Among the external factors, very important role is played by market affecting the prices of goods and services, the labour market in terms of demand for certain professions, competition, the impact of unions on the formation of labour costs and regulations that govern this field, including taxes and contributions. Internal factors relate primarily to the ability of managers and HR professionals to provide objective system and procedures, which will rely on the internal politics of earnings, the value of work, the recognition of knowledge, skills and performance of employees. These internal factors are under the control of the organization and management can manage them, i.e. they can ensure fairness and balance the interests of both sides: the organization and the employees (Hanic, 2016). Also, the reward system would allow companies to govern behav-

ior of employees, emphasize and spread the values of the company, i.e. corporate culture, and to express their expectations regarding the results achieved by employees (Lindström, 2011). Fair and rightful transaction between the employer and the employee assumes that both the employer and the employee have access to information necessary for employer to make decisions on the amount of employees' compensation. The aim of this paper is to identify elements of the system of rewards which determine the perception of fairness among employees and to what extent they are implemented in organizations in Serbia and Bosnia and Herzegovina (B&H).

As one of the basic elements of the transaction and the relationship between employer and employee in the distribution of rewards is the core of organizational justice. Greenberg (1987) introduced the concept of organizational justice in the theory of organizational behavior, taking into account the fact that the employee evaluates the behavior of the organization in relation to their working behavior and that individual's performance greatly depends on it. It is suggested that the perception of fairness as a fair exchange between the organization and the employee encourages employees to make stronger commitment in a way that suits the organization (Blakely *et al.*, 2005, Konovsky & Folger, 1991, Konovsky & Organ, 1996, Moorman, 1991, Organ & Moorman, 1993, Moorman *et al.*, 1998). The concept of organizational justice in the first version, developed by Adams (1965) on the principles of social exchange, related to the perception of fairness of the total gains in relation to the role of employees. Although the distributive justice, as the final result of the distribution, was the main goal, it turned out that in the perception of justice, the way of achieving such result plays a significant role. The research that was conducted by Thibaut and Walker (1975) showed that the way in which decisions are made is important for people's perception of justice. As a result, the concept of procedural justice has been created. The basic premise of procedural justice is that people should be treated in a fair and consistent manner (Pinnington *et al.*, 2007, p. 238). Particular emphasis is given to the responsibility of decision makers in the organization, because managers can change, shape, redirect and fundamentally alter other people's lives with their decisions.

Method of the Research

In order to analyze this research, appropriate method of statistical analysis were used, as follows:

- The methods of descriptive analysis, which are primarily used for the statistical evaluation of key parameters such as: central tendency, proportions and rate of dispersion.
- Methods of correlation analysis, which were applied to test the degree of correlation of the analyzed variables
- ANOVA or analysis of variance, which is used to test the hypotheses of equal population mean values .
- MANOVA or multivariate analysis of variance, which is used to simultaneously test the hypotheses on the influence of independent variables on dependent ones.

In the search for additional data, which would enable the conclusion on the implementation of the principle of fairness in the distribution of rewards as one of the key ethical concepts in relations between employers and employees, a survey was conducted, which entailed the corresponding proportional number of respondents from Serbia and B&H, to enable comparison of results. Selection of these two countries, the former Yugoslav republics is based on many similar characteristics (culture, common history, a long period of transition, yet not becoming the EU members, etc.) (Grubisic *et al.*, 2011). Since procedural justice depends exclusively on internal factors of the organization, the focus of our research is directed towards the elements of procedural justice.

The research plan envisaged participation of 360 respondents. There were 325 valid questionnaires after conducted research. On the basis of secondary data, this research started from the assumption that the principle of procedural justice in the distribution of income in Serbia and B&H has been insufficiently applied in practice in organizations in these two countries. It has been assumed that the ownership structure of the company (organization) affects the degree of implementation of the principles of fairness. The practice, however, differs depending on their ownership structure (Jovanovic *et al.*, 2012). The questionnaire was used in the research which comprised two groups of closed questions: one concerning the characteristics of respondents and organizations in which they were working (independent variable) and another perception of the way in which earnings were distributed.

Results and discussion

Results of descriptive statistics, presented in Table 1 show that the highest percentage (64 % of the total sample) expressed agreement with the statement that the employees' salaries are determined on the basis of the esta-

blished system that is known to all employees. The percentage of respondents who complied with this statement is higher in Bosnia and Herzegovina (68%), than in Serbia (62%). The remaining percentage of negative and indecisive responses to this statement (36 %) seriously signals that one third of organizations from these countries do not apply salary systems based on job requirements and operating results, which opens great opportunities for unfair distribution of earnings, favoritism and other forms of inequality. Almost the same percentage of the respondents (63 %) agree with the statement that earnings depend on the degree of education and position in the organization providing the basis for the assumption that the respondents think just on those criteria regarding salary system according to pre-established criteria. Experience of the researchers speaks in favor of that assumption, as well. Of the total number of the respondents in both countries, 36 % agrees with the statement that the salaries of employees are negotiated with each individual, while the percentage of positive statements is higher in participants from Bosnia and Herzegovina (40%). At the same time, these responses reveal high standard deviation (1.545 for the total sample). This practice leaves a great opportunity for unequal treatment and injustice in determining earnings. The idea that earnings of managers are determine as fixed under the contract, and of other employees according to the rule book was confirmed by one third of the respondents (35% of the total sample). Irregular payment of salaries is confirmed by 10 % of the total sample, more in B&H (13%), than in Serbia (8%).

Table 1. How salaries are distributed in the respondents 'organizations?

		0	Number of negative	Number of positive	% of 0 responses	% of negative	% of positive	Mean value	Standard deviation	N
Employees' salaries are determined by negotiating with each individual separately	Serbia	33	105	70	16	50	34	-.33	1.551	208
	B&H	13	57	47	11	49	40	-.19	1.537	117
	Total	46	162	117	14	50	36	-.28	1.545	325
Employees' salaries are calculated based on the determined system which all employees are familiar with	Serbia	29	51	128	14	25	62	.57	1.395	208
	B&H	13	25	79	11	21	68	.73	1.430	117
	Total	42	76	207	13	23	64	.62	1.408	325
Employees' salaries depend only on education and position in the organization	Serbia	28	51	129	13	25	62	.49	1.300	208
	B&H	17	24	76	15	21	65	.55	1.283	117
	Total	45	75	205	14	23	63	.51	1.292	325
Managers' salaries are determined as fixed under the contract, and other employees' salaries are calculated according to the rule book	Serbia	45	94	68	22	45	33	-.28	1.438	208
	B&H	27	44	46	23	38	39	.00	1.402	117
	Total	72	138	114	22	43	35	-.18	1.430	325
Employees' salaries are paid irregularly and with delay	Serbia	14	178	16	7	86	8	-1.49	1.068	208
	B&H	16	86	15	14	74	13	-	1.30	11

								1.17	8	7
	Total	30	26 4	31	9	81	10	- 1.37	1.16 8	32 5

Source: Based on authors calculation

Insight into the mean value of the response show that the agreement with the statement that the employees' wages are calculated according to the already determined system which is known to all employees is expressed by the majority of respondents employed with private companies with both domestic and foreign capital, companies with foreign capital, organizations that use HR services of external agencies and those in which one person performs professional HR function. Confirmation that earnings depend only on the level of education and position in the organization is found mostly in the respondents from state-owned enterprises. The strongest confirmation of practice expressed through the claim that the salaries of employees are determined by negotiating with each individual was obtained from the respondents employed with private companies which domestic capital and companies which suffered losses.

Data obtained in this research suggest that the practice to determine managers earnings fixed under the contract, and other employees' salaries according to the rule book, is most common in private companies with both domestic and foreign capital. Among the five responses on the models of distribution of earnings, ethically and professionally it is most acceptable to determine the employees earnings according to the prescribed system which is known to all employees (second row), given that this model of distribution meets the requirements of fairness (objectively established and known criteria) and equality (applicable to all employees). The majority of respondents from all types of organizations selected this attitude as the evaluation of practices in their organization.

Table 2 shows the characteristics of the distribution of earnings in relation to the modalities of ownership structure. The data obtained from this research show that earnings are determined by negotiation with each individual mostly in private companies with domestic capital, and the least in state-owned enterprises. This gives huge opportunity to favor some employees by managers and perception of injustice by the employees. According to the opinion of the respondents, the distribution of earnings based on a determined system which is known to all employees is most common in private companies with both domestic and foreign capital, then in private companies with foreign capital, while in private companies with domestic

capital this form of distribution is present least. It is interesting that in the state-owned enterprises the mean value of the positive response to this question is quite low (.71), although it is expected that in this category of enterprises the system of payment of salaries is most regulated and transparent.

Table 2. Application of criterion of fairness in distribution of salaries in companies with different ownership structure

	Ownership structure	Mean	Std. Deviation	N
Salaries are determined by negotiating with each individual separately	Private company - domestic capital	.11	1.601	100
	Private company with both domestic and foreign capital	-.16	1.700	49
	Private company with foreign capital	-.23	1.511	98
	State enterprise	-.90	1.212	78
	Total	-.28	1.545	325
Salaries of employees are determined on the basis of a determined system known to everyone	Private company - domestic capital	.20	1.537	100
	Private company with both domestic and foreign capital	.98	1.331	49
	Private company with foreign capital	.82	1.271	98
	State enterprise	.71	1.340	78
	Total	.62	1.408	325
Salaries of employees depend on education and position in organization	Private company - domestic capital	.22	1.345	100
	Private company with both domestic and foreign capital	.49	1.309	49
	Private company with foreign capital	.38	1.206	98
	State enterprise	1.05	1.172	78
	Total	.51	1.292	325
Salaries of managers are determined as fixed under the contract, and of other employees according to the rule book	Private company - domestic capital	-.48	1.344	100
	Private company with both domestic and foreign capital	.24	1.479	49
	Private company with foreign capital	-.05	1.395	98
	State enterprise	-.23	1.485	78
	Total	-.18	1.430	325
Salaries of employees are paid irregularly and with delay	Private company - domestic capital	-1.19	1.316	100
	Private company with both domestic and foreign capital	-1.35	1.234	49
	Private company with foreign capital	-1.70	.789	98
	State enterprise	-1.21	1.252	78
	Total	-1.37	1.168	325

Source: Based on authors calculation

Results of this survey indicate that the greatest differences in the treatment of managers and other employees are identified in private companies with both domestic and foreign capital, a practice adopted from Western capita-

list countries. The attitude that earnings of managers are determined as fixed under the contract, and of other employees according to the rule book was most denied by the respondents from private companies with domestic capital and state-owned enterprises. The problem of irregular payment of salaries, according to this research is least present in private companies with foreign capital, and most often found in private companies with domestic capital and state-owned enterprises. Using the services of HR professionals according to modes offered in the questionnaire represents a variable that can significantly explain the differences in three of the five modalities of distribution of earnings (excluding the criteria of education and irregularity in payment of salaries). Based on the results of this research and findings obtained from secondary data it can be concluded that the principles of procedural justice are not sufficiently applied in organizations in Serbia and B&H. Their application is dependent on the form of ownership. The ownership structure of the respondents' organization has influence at all group characteristics of the practice of distribution of earnings stipulated in the questionnaire (Table 3).

Table 3. Relationship between ownership structure of the company and the distribution of reward - Tests of Between-Subjects Effects

Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Salaries are determined by negotiating with each individual separately	45.812	3	15.271	6.740	.000	.059
Salaries of employees are determined on the basis of a determined system known to everyone	28.312	3	9.437	4.935	.002	.044
Salaries of employees depend on education and position in organization	33.000	3	11.000	6.948	.000	.061
Salaries of managers are determined as fixed under the contract, and of other employees according to the rule book	19.677	3	6.559	3.276	.021	.030
Salaries of employees are paid irregularly and with delay	16.322	3	5.441	4.103	.007	.037

Source: Based on authors calculation

Conclusions

According to the analyzed data of the research, the principles of procedural justice are not sufficiently applied in organizations in Serbia and Bosnia and Herzegovina. Their application depends on the form of ownership. Low perception of procedural practice in distribution of rewards may have negative impact on business results, which can be the subject of some future research. Such conclusion is indicated by the data that distribution of earnings in Serbia and Bosnia and Herzegovina is carried out in most companies without clearly defined procedures and criteria and is not clearly related to the type of work and the results achieved. From the perspective of procedural justice, it can be observed that in Serbia procedures of distribution of earnings mostly focus on general legal requirements and criteria (qualifications, coefficients) mainly as a fixed (unchanging) category. The most commonly used criterion is the level of education and position in the organization, which stimulates the demand for degrees and striving towards better paid positions. These, however, are the criteria that do not encourage real individual and organizational performance and operating results.

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