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Conference Paper — Published Version

Application of Ethical Principles to Employee Salaries - Example of Serbia and BiH

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APLICATION OF ETHICAL PRINCIPLES TO EMPLOYEE SALARIES - EXAMPLE OF SERBIA AND BiH

ABSTRACT

Salaries of employees are one of the ethically most sensitive issues in human resource management, precisely because salaries can meet a whole spectrum of human needs. The basic ethical principles in salary distribution are fairness and equality. The application of these principles is facilitated by objective criteria. The work shows that regular salary payments are an ethical principle that is more important than the amount itself, or the distribution of salaries, relying on Adams' theory of equity, which postulates that salaries should be equivalent to the effort, knowledge, skills, and results achieved, but also fair in relation to other employees.

The application of these principles of equivalence and fairness can only be ensured by clear criteria and procedures known in advance as the "rules of the game," which determine the expectations of the employees. The aim of the research is to answer the research question of whether and to what extent the prevailing practices of determining salaries in Serbia and Bosnia and Herzegovina can be assessed as ethical based on the application of ethical arguments, through the analysis of these practices from a business ethics perspective.

The research was conducted on a sample of 325 respondents, of which 208 are from Serbia and the remaining 117 are from Bosnia and Herzegovina. A survey method was used to collect primary data. The SPSS statistical program was used to process the obtained results. Basic methods of descriptive statistical analysis, causality tests, factor analysis, and other multivariate analysis techniques were used to test the main hypothesis.

The results of the research confirmed the initial assumptions that employee salaries are determined based on an established system that is known to all employees, but also that there is a low level of application of ethical principles in the distribution of salaries.

Keywords: *business ethics, ethical principles, salaries, HRM, management.*
JEL: M14, M20, M54

1. INTRODUCTION

Earnings and rewarding employees is a human resource management process that undoubtedly carries the greatest ethical challenges. The main argument for this claim lies in the fact that it is a crucial existential issue for employees and, at the same time, a factor of immediate costs for employers. In this process, the conflicting interests of these two parties are most pronounced, and "swinging the pendulum" to either side can cause ethical, as well as numerous other, problems.

Highlighting earnings as a matter of particular ethical significance, Lay (1996, p. 225) points out the importance of "fair pay" and emphasizes that earnings are fair if they are paid in an amount specified by a contract and if the contractually determined amount of the salary is set according to the expected criterion.

Earnings should essentially be equivalent to the effort, abilities, knowledge, and time that the employee invests in the work and the organization. Fair pay depends on a number of external and internal factors, and the role of perception should not be overlooked either. The perception of fairness determines

employee behavior in terms of their level of engagement and decisions about potentially leaving the organization, as indicated by Adams' equity theory (Adams, 1965).
It does not take many arguments to establish that not paying salaries to employees represents an obvious form of exploitation and immorality on the part of employers.

From the beginning of the development of industrial relations worldwide, wages have represented an inviolable right of the employee and an obligation of the employer. In disturbed relations between labor and capital, as well as in an imbalanced power structure favoring employers, in a state of general unemployment reaching up to 30% and the loss of several hundred thousand jobs, the phenomenon of unpaid work emerges. The same applies to avoiding the payment of contributions for pension and health insurance, leaving many unable to access health insurance and pension benefits.

2. RESEARCH METODOLOGY

he sample included a total of 325 respondents, of which 208 were from Serbia and the remaining 117 from Bosnia and Herzegovina (BiH). Among the respondents, 46% were female and 54% male. In the Serbian subsample, men (52%) and women (48%) were almost equally represented, while in BiH the share of male respondents (59%) was relatively higher than that of female respondents. For data processing, the statistical program SPSS was used.

Basic methods of descriptive statistical analysis, causality tests (Chi-square test, test of variable independence, ANOVA, MANOVA, etc.), factor analysis, and other multivariate analysis techniques were applied.

The results of the empirical research are presented based on a survey involving 325 respondents — 208 from Serbia and 117 from Bosnia and Herzegovina. The sample was proportionally stratified in the sense that the subsamples from BiH and Serbia were roughly proportional to the population sizes of the two countries. In addition to primary data collected through the survey, secondary data sources were also used whenever possible. These secondary data primarily relate to relevant publications in the media. The use of secondary data aimed, on the one hand, to provide a more complete picture of the studied phenomenon, and on the other hand, to serve as control data for certain aspects of the research.

3. RESEARCH RESULTS

Negotiating salaries with each individual carries the great risk that compensation will depend on the bargaining abilities of either party. Determining salaries based solely on educational level and organizational position carries the risk of unfairness, as neither education nor position guarantees that employees will achieve the expected results. Negotiating pay with managers makes sense only if clear and measurable goals are established. However, in practice, this often leads to favoritism toward managerial structures, who make decisions about their own compensation, thus calling objectivity into question.

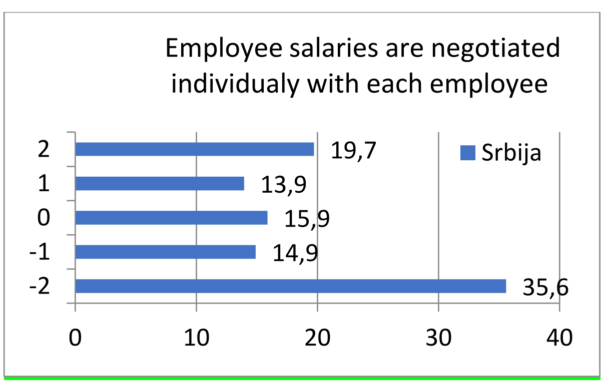
Table 1 and the derived charts (Fig. 1) show that the largest percentage (64% of the total sample) agreed with the statement that employee salaries are determined according to an established system known to all employees. The agreement rate among respondents is higher in Bosnia and Herzegovina (68%) than in Serbia (62%).

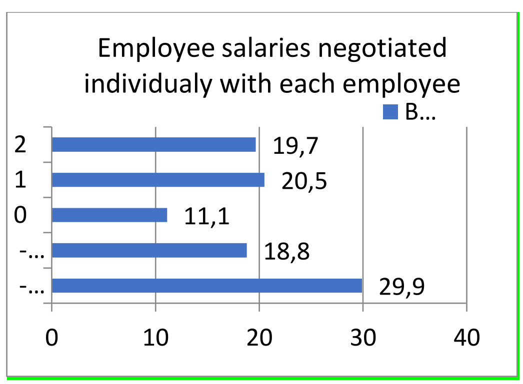
Table 1. How are employees' salaries determined in the respondent's organization

			0	No of negative responsenes	No of positive responsenes	% responses 0	% negative	% positive	Mean	St deviation	N
3.15.	Employee salaries are negotiated individually with each employee	Srbija	33	105	70	16	50	34	-.33	1.551	208
		BIH	13	57	47	11	49	40	-.19	1.537	117
		Total	46	162	117	14	50	36	-.28	1.545	325
3.16.	Employee salaries are determined according to an establisher system known to all employees	Srbija	29	51	128	14	25	62	.57	1.395	208
		BIH	13	25	79	11	21	68	.73	1.430	117
		Total	42	76	207	13	23	64	.62	1.408	325
3.17.	Employee salaries depend only on educational level and organizational position	Srbija	28	51	129	13	25	62	.49	1.300	208
		BIH	17	24	76	15	21	65	.55	1.283	117
		Total	45	75	205	14	23	63	.51	1.292	325
3.18.	Managers salaries are fixed according to the contract, while other employees salaries are determined by internal regulations	Srbija	45	94	68	22	45	33	-.28	1.438	208
		BIH	27	44	46	23	38	39	.00	1.402	117
		Total	72	138	114	22	43	35	-.18	1.430	325
3.19.	Employees salaries are paid irregularly and with delays	Srbija	14	178	16	7	86	8	-1.49	1.068	208
		BIH	16	86	15	14	74	13	-1.17	1.308	117
		Total	30	264	31	9	81	10	-1.37	1.168	325

Source: Author's research

The remaining percentage of negative and undecided responses to this statement (36%) seriously indicates that about one-third of organizations in these countries do not implement salary systems based on job requirements and work performance, which opens significant opportunities for unfair salary distribution, favoritism, and other forms of inequality. A similar percentage (63%) agreed with the statement that salaries depend on educational level and organizational position, which suggests that respondents associate these criteria with a salary system based on pre-established standards.





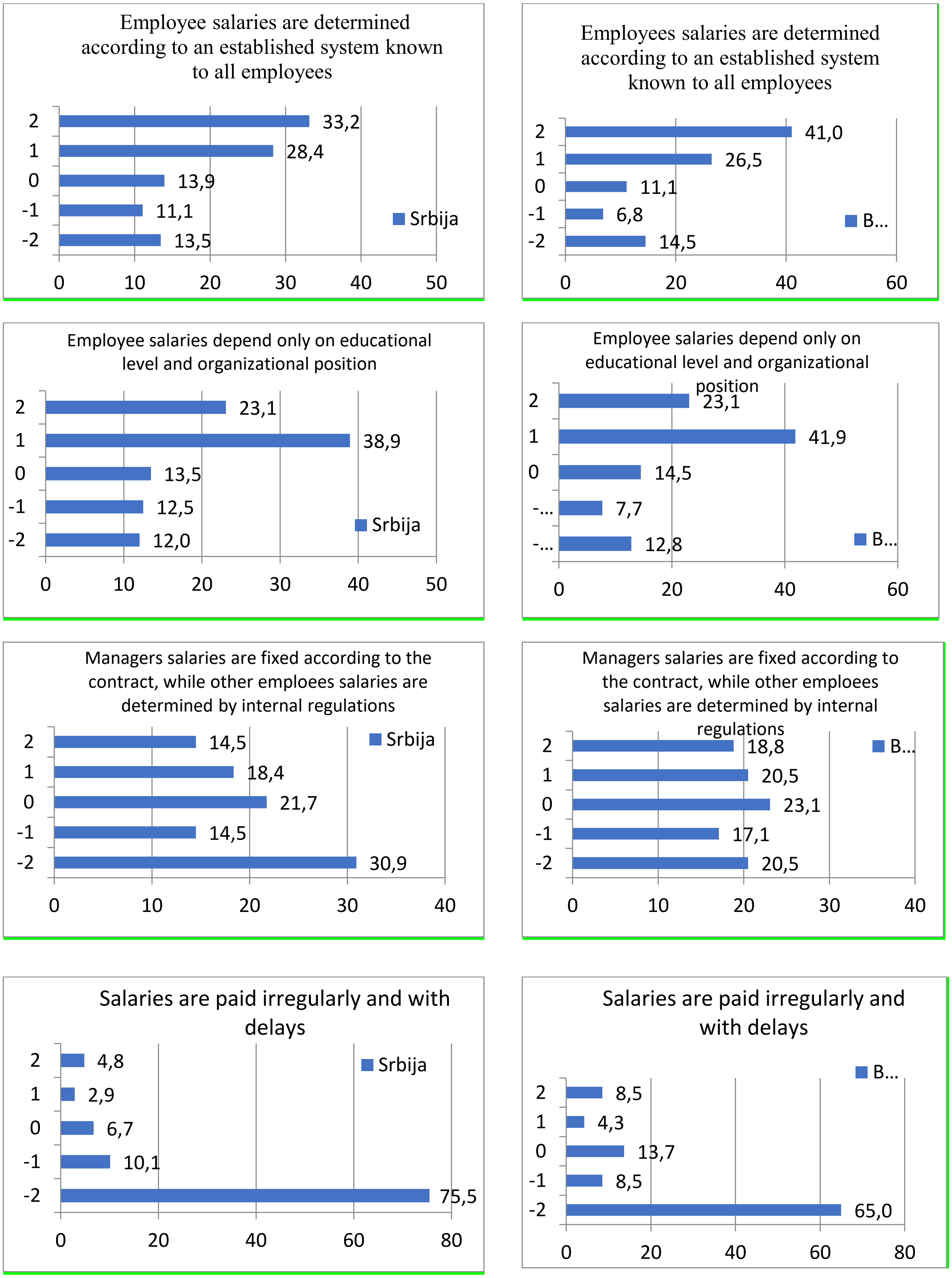


Fig 1. Panel of selected responses

Source: Author's research

Table 2: Models od salary determination according to the characteristics of the organizations employing respondents

	Employee salaries are determined through individual agreements	Employee salaries are determined based on an established system known to all employees	Employee salaries depend only on educational level and position in the organization	Managers salaries are determined by fixed contract, while other employees salaries are regulated by internal rules	Employee salaries are paid irregularly and with delays
Up to 49 employees	-.04	.56	.39	-.32	-1.26
Between 50 and 250 employees	-.35	.52	.23	-.23	-1.47
Over 250 employees	-.34	.58	.60	-.04	-1.37
Private company / domestic capital	.08	.19	.13	-.52	-1.24
Private company with mixed domestic and foreign capital	-.13	.90	.45	.35	-1.23
Private company with foreign capital	-.18	.84	.33	-.10	-1.70
State ownend company	-.81	.47	.95	-.24	-1.14
The organization achived profit in the previous period	-.23	.58	.42	-.21	-1.39
The organizational recorded losses in the previous period	.11	.43	.06	.11	-1.11
The organization uses external HR agency	.00	.95	.42	.84	-1.00
The organization has its own Hr department	-.34	.66	.57	-.20	-1.49
HR activities in the organization are performed by a single professional	-.69	.95	.43	-.24	-1.33
HR activities in the organization are performed exclusively by the owner or director	.15	.14	.20	-.41	-1.21

Source: Author's research

This assumption is also supported by the researchers' experience. Of the total number of respondents in both countries, 36% agreed with the statement that employee salaries are determined through individual negotiation with each employee, with a higher percentage of positive responses among respondents from Bosnia and Herzegovina (40%). At the same time, these responses show a high standard deviation (1.545 for the total sample). Such practices leave significant room for unequal treatment and unfairness in salary determination. One-third of respondents (35% of the total sample) confirmed that managers' salaries are determined as fixed according to the contract, while the salaries of other employees are determined according to internal regulations. Irregular payment of salaries was reported by 10% of the respondents, with slightly higher rates in BiH (13%) than in Serbia (8%). When considering organizational characteristics, the significance of ownership structure, business performance, trade union presence, and the method of using HR services in salary-related matters becomes apparent. By examining the mean values of responses, we can see that the highest agreement with the statement that employee salaries are determined according to an established system known to all employees comes from respondents in private companies with mixed domestic and foreign capital, companies with foreign capital, organizations using HR services from external agencies, and those where a single professional performs the HR function. The view that salaries depend only on educational level and organizational position was most strongly confirmed by respondents from state-owned enterprises.

Among the five offered ratings regarding the method of salary distribution, the most ethically and professionally acceptable is that employee salaries are determined according to an established system known to all employees (second column), as this model meets the requirements of fairness (objectively determined and known criteria) and equality (applies to all employees). Most respondents from all types of organizations selected this option as an assessment of the practice in their organization, although it should be noted that some respondents may have given socially desirable answers, and the statement was not entirely clear in terms of practical application.

The highest number of positive responses came from respondents in organizations that use external HR services, organizations where a single professional performs HR functions, and private companies with mixed domestic and foreign capital. The lowest number of positive responses came from respondents in organizations where the owner or director performs HR functions and in private companies with domestic capital.

4. CONCLUSION

This research indicates that educational level as a primary criterion in salary distribution is highly pronounced in companies in Bosnia and Herzegovina and Serbia. Although it is a relatively objective criterion, it cannot satisfy the principles of fairness, as it is not linked to employee performance. It only partially ensures the principle of equality from an output perspective, while neglecting other criteria (knowledge, skills, results) and being overly formalized, though it is the simplest to apply. According to our respondents, this criterion is most frequently used in state-owned enterprises and least in organizations that have incurred losses and in private companies with domestic capital. Negotiating salaries individually with each employee carries risks of inequality and unfairness because it allows for favoritism, subjectivity, and the influence of bargaining skills rather than actual employee potential. Recently, this practice has been quite widespread in Bosnia and Herzegovina and Serbia. According to the results of this research, this type of salary distribution is most common in private companies with domestic capital, in organizations where HR functions are performed by the owner or director, and in small enterprises, and least common in state organizations, large enterprises, and companies where HR functions are performed by a single professional. The observation that managers' salaries are fixed according to the contract, while the salaries of other employees are determined according to internal regulations, was confirmed by the majority of respondents in organizations that use external HR services and in private companies with mixed domestic and foreign capital, but denied by respondents from private companies with domestic capital and organizations where HR functions are performed by the owner or director. Although irregular salary payments are a common practice in organizations during transitional processes, respondents in this research did not report this phenomenon to a significant extent. Employee compensation and reward systems are a human resource management process that undoubtedly carries the greatest ethical challenges. The main argument for this claim lies in the fact that it is a key existential issue for employees and, at the same time, an immediate cost factor for employers. In this process, the conflicting interests of both parties are most evident, and any "swing of the pendulum" to either side can cause ethical as well as numerous other problems, Highlighting compensation as a matter of special ethical importance for the organization and management, Lay (1996, p. 225) emphasizes the significance of "fair pay" and states that compensation is fair if it is paid in the amount established by the contract and if the amount specified in the contract is determined according to the expected criteria.

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