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Abstrakt

Die Hauptzweck diese Arbeit ist es, Erkenntnisse über die Bedeutung und Entwicklung der Behlonungssysteme insgesamt zu geben und mit spezielem focus auf die Volkswirtschaften im Übergang. Was wir versucht zu verstehen ist, wie der Übergangsprozess auf die Entwicklung der Mitarbeiter Bonussysteme beeinflusst, mit einem genaueren Blick auf den Fall von Mazedonien.

1. Introduction

The aim of this research paper was to gain insights on the influence of transition process on human resource management, with special focus on employee compensation system.

The paper starts with literature review on the fundamentals of employee reward system and its importance from company and employee perspective. In first part we discuss the concept of the reward system and its constitutive elements like base pay, benefits, allowances, etc., the impact of reward systems on employee motivation, as well as the trends that influenced the shape and development of reward systems.

The following part of the paper treats the problematic of the human resource management and the employee compensation system of economies that have undergone the transition process from state-driven into the market-driven economies.

The last part of the paper is dedicated to the case of Macedonia. In this part we give insights on the employee compensation during the time of communist regime in Macedonia, we continue with a problems and issues that came along with the transition process and close up with a market research on Macedonia's employee compensation today.

2. The Fundamentals of Employee Reward Systems

The main purpose of this part of the paper will be to give insights into:

- The concept of reward system
- The elements of reward system: base pay, variable pay and employee benefits
- The aim of reward system from the company and employee perspective

2.1 The concept of reward system

Reward systems are one of the most prominent and most important features of any organization. Because of the wide ranging impact a reward system has on individual behavior and behavior of organizations, it is very important designing such reward systems that will motivate the right performance, attract the right people and create a supportive and good working climate within organization.

However it is important to discuss what behavior does a reward system influence. A research on reward system suggests there are six factors which are influenced by reward systems, which in turn influence the organizational effectiveness:

1) Attraction and Retention

According to Lawler (1993) organizations that give the most reward tend to attract and retain most people. This happens because high rewards lead to higher job satisfaction and therefore less turnovers.

However what organizations are interested in is how to attract and retain the best performers. Retaining them requires organizations to design such rewards for them that will make them feel justly treated when comparing their rewards with those of other people performing the same job but in other organizations. According to Lawler and Jenkins (1992) this strategy can be very costly and lead to an intra-organizational inequity if the good performers feel to be rewarded same as the bad performers inside the organization, although they might be fairly treated when compared externally. As result of this situation the better performers may feel dissatisfied, complain and mistrust the organization.

As respond to above mentioned situation what a company should do is designing competitive reward systems and basing rewards on performance. This will encourage the better performers to stay with the organization.

2) Motivation of Performance

When managed and designed successfully a reward system can motivate performance. However we have to keep in mind that not all reward packages can motivate a person to perform effectively, because it also depends on the needs of people. According to Lawler (1993) people have their own needs and mental maps of how the world is like.

The approach that best explains how people act on their mental maps is called the expectancy theory (Lawler et al, 1973). This theory suggests that human behavior will be motivated by the conscious expectation more than response to stimuli. The expectation will be that the action in prospect will lead to desired goal or outcome. Therefore, in motivating staff, we must take certain conditions into consideration. These include the fact that we can not develop

a general reward package, but we need to learn and understand the individuals and their needs in order to motivate them accordingly.

3) Skills and Knowledge

Pay systems can motivate not only performance but as well learning and development. According to Lawler (1993) individuals are motivated to learn those changes that are rewarded. Thus reward systems that offer promotion tend to encourage individuals to learn those skills that lead to promotion.

4) Culture

One important factor that influences the overall culture of the organization is reward system. Depending on how the reward systems are developed they contribute in creating a wide variety of organizational cultures. For example, Foulke (1991) stated that when people receive relatively high pay they feel as important employees working for a successful company and moreover having a system that allows employees to involve in pay decision produces a participative culture in which employees are more committed to the success of the organization.

5) Reinforce and Define Structure

Reward systems have also an important impact on the structure of an organization. Reward systems also help in defining the organizational structure of an employee, because the level at which performance is measured and rewarded (individual, team, plant, division, business or corporation) draw employee attention to those levels (Heneman, 2002).

6) Cost

Reward systems are expensive. For employers, compensation decisions influence their cost of doing business and thus, their ability to sell at competitive price in the product market (Gerhart et al, 1995). Since employee compensation packages represent a large percentage of an organization's operating costs, when designing them, employers should focus on how high they should be.

To summarize, a reward system can be viewed as a powerful strategic tool for improving the organizational effectiveness, having into consideration the wide range of factors it influences.

2.2 The elements of reward system

A reward system consists of several elements which are base pay, contingent pay, employee benefits and allowances.

Base pay

Base pay may be expressed as annual, weekly or hourly rate. It is amount of pay that constitutes the rate for the job and it might vary accordingly to the grade of job or level of skills required.

Base pay is influenced by internal and external relativities. The internal relativities may be measured by some forms of job evaluations. External relativities are assessed by tracking market rates (Armstrong, 2007). Most organizations use one or more market pay surveys to help determine what other organizations pay specific jobs in making their own pay level decisions (Gerhart et al, 1995).

Contingent pay

The term “contingent pay” it is used to describe formal pay schemes that provide payments on the top of base rate due to performance, contribution or skills of an employee. According to Armstrong (2009) contingent pay is either consolidated in the base rate so the pay progresses within a pay range or it is paid as a non-consolidated cash bonus.

Employee benefits

Employee benefits consists of elements of remuneration additional to the cash pay, like pensions, sick pay, company’s cars and they also include provisions that are not strictly remuneration such as annual holidays.

Allowances

Allowances are paid in addition to basic pay for special circumstances and are often subject of negotiation between the employer and employee. Some of the main forms of allowances are location allowances for example for living in the US, overtime payments, working condition allowances, etc.

Although the above mentioned elements constitute the main elements of a reward package, we must mention that different organizations use different combinations of these elements when compensating their employees. These combinations may vary not only across organizations but also across employing units within the organizations. For example in the US 70 percent of payments to employees are in the form of cash, leaving 30 percent in the form of noncash and deferred cash benefits (Noe et al, 1994).

Also the nature of pay may vary across employing units. A very often asked question is: Are employees of the same hierarchical level within different parts of the organization paid the same? Sometimes organizations decide to pay relatively high rates for the employees of entry

level, but giving them a very slow opportunity for pay growth, while other organizations may start with a lower pay rate, but with greater opportunities for promotion and pay growths.

Pay decisions are usually part of organization's policies but are often made based on the results of market trends and pay surveys. However we should never forget about the powerful influence of these decisions on the company's effectiveness.

2.3 The aim of reward system from the company and employee perspective

The purpose of employee reward is to ensure the achievement of the organization's strategic objective by retaining the skilled, competent and committed employees. These employees will be attracted and retained in the organization as long as they are fairly rewarded for the value they create and as long as the organization continues motivating them to create value.

The success of an organization depends on the quality of its employees. Therefore one a well-managed and attractive reward system is one important factor that can contribute to improvement of that quality.

According to Armstrong (2002) there are several aims of reward systems from organization's point of view. Among them we can mention the following:

- help attract, retain and motivate high-quality people
- play a significant part in the communication of the organization's values, performance, standards and expectations
- encourage behavior that will contribute to the achievement of the organization's objectives
- underpin organizational change programmes concerned with culture, process and structure

- support the realization of the key values of the organization in such areas as quality, customer care, teamwork, innovation, flexibility and speed of response
- provide value for money.

Except from the organization's point of view, there are also several aims of employee reward from employees' perspective. Those include:

- treat them as stakeholders who have the right to be involved in the development of the reward policies that affect them
- meet their expectations that they will be treated equitably, fairly and consistently
- be transparent – they should know what the reward policies of the organization are and how are they affected by them (Armstrong, 2002).

Having into consideration the aims of employee reward according to both the employee and the organization's perspective, we can conclude that a successful reward system is the one that aligns the incentive of both parties. This can be achieved if designing such a reward system that will result in added value for the organization, however in turn will remain transparent toward employees and employees will be involved in the development of reward systems.

3. Motivation and reward

In the chapter above we mentioned that reward systems are powerful tools to attract employees to organizations and channel their motivation in desired ways. In other words reward systems should keep employees coming to work and motivate them to perform at high levels.

Organizations expect that their employees will fulfill the tasks assigned to them according to rules established from the organization itself. While, employees expect that the organization will provide them a fair pay for their performance and safe working conditions. However it could be the case that the management of the organization as well as the employees could expect more. How far their expectations could go depends on how ambitious both parties are. These ambitions vary across organizations. For organization to address these expectations an understanding of employee motivation is required (Beer et al, 1984). A motivated employee will be more committed to his work and increase its own performance and in turn the organization's productivity.

Snell (1999) says motivation is everything. Without motivation even the most talented people will not deliver to their potential. With motivation, others will perform way above the level expected of their intelligence and academic ability. Furthermore, according to Bateman and Snell (1999) a highly motivated person will work hard toward achieving performance goals. With adequate ability and understanding of the job such a person will be highly productive.

There are several theories that try to explain motivation and job satisfaction in the workplace.

On this chapter we will focus on three very popular theories used in research on pay such as:

- Reinforcement theory
- Expectancy theory
- Equity theory

3.1 Reinforcement theory

The reinforcement theory of motivation was developed from B.F. Skinner a psychologist from Harvard. According to Lussier and Achua (2010) the reinforcement theory of B. F. Skinner suggests that managers should not try to understand employees' needs or behaviors they choose to fulfill those needs, but they should try to understand the relationship between behaviors and their consequences. In this way they could reinforce the desirable behaviors.

If we intend to use the reinforcement theory as a motivating tool in the workplace, the supporters of this theory offer some important guidelines which include the following:

- Positively reinforce desired behavior
- Ignore undesired behavior so far as possible
- Avoid using punishment as principal means of achieving desired performance
- Provide reinforcement as soon as possible after the response
- Apply positive reinforcement regularly
- Assess positive and negative factors in the individual's environment
- Specify desired behavior/ performance in quantifiable terms (Cole, 2004).

Rewards that positively reinforce desired behavior can range from praise from a supervisor to gifts, cash bonuses, recognition, and career opportunities. According to Goldstein and Ford (2002) trainers and supervisors can best enhance learning and transfer of knowledge and skills by identifying what rewards or outcomes the learner finds most positive.

3.2 Expectancy theory

Expectancy theory is one of the most prominent motivation and leadership theories developed by Victor Vroom. According to Vroom most behaviors are under voluntary control of the employee and are consequently motivated. Here motivation is seen as a function of two other factors: expectancy and valence.

Expectancy – refers to the individual's belief concerning the likelihood or subjective probability that a particular behavior will be followed by a particular outcome such as level of performance (Gibson et al, 2000)

Valance – is an individual preference for an outcome. For example one might prefer a 5% increase in pay over a longer annual holiday. If an outcome is preferred it is positively valent and if it is not preferred it is negatively valent. A zero valence outcome is the one toward which people are indifferent.

According to expectancy theory all motivation is conscious. Individuals consciously make a choice following a calculation of pleasure they expect to attain out of it. However expectancy theory says nothing about subconscious motivation. This is one major critic of expectancy theory.

3.3 Equity theory

Equity theory was developed from Stacey Adams, a research psychologist at General Electrics in New York. Equity theory suggests that employee perceptions of what they contribute to the organization, what they get in turn, and how their return-contribution ratio compares to others

inside and outside the organization, determine how far they perceive their employment relationship to be (Adams, 1963).

In essence, this theory proposes that individuals are motivated to maintain fair or “equitable” relationships between themselves and to change those relationships that are unfair, “inequitable” (Kini and Hobson, 2002)

In other words, what this theory suggests is that if employees judge that their effort in the organization are rewarded fairly in comparison to others in the organization doing the same job, then they will be motivated to perform better and if not fairly rewarded compared to others doing the same job, the employees will put less effort while performing their tasks at workplace.

4. Trends that shaped the future of Reward Systems

Before starting to scrutinize the different trends which were shaping the current and future reward systems, it is relevant to stop for a moment and shed lights on the topic itself. As Richard Thorpe (2000) expressed, to date there was a limited number of literature which investigated the issue of reward and pay. Since then, pay and reward became an essential part of human resource management and several scholarly works and books were published on this topic. Michael Armstrong is one of those scholars who extensively examined remuneration strategies and trends behind reward systems. His books, *Employee Reward* (2002) as well as *Reward Management: A Handbook of Remuneration Strategy and Practice* (2007) were in-depth analyzed the aforementioned topic as it was already mentioned before. The watershed between the traditional and new trends in the reward system was the 1980s. Until that the remuneration administration was a compulsory, however still secondary task in the organizational culture. John Child (1984) considered reward policy as a whole range of rewards as well as punishments. However, the specific objective of rewards and punishment are totally differing from each other.

4.1 Traditional reward system

The transformation of reward system, including the new trends, mainly derives from the United States. Thereby, most of the essential literatures also come from the pen of American scholars, such as Michael Armstrong, Schuster and Zingheim (1992). Armstrong (2002) comprehensively scrutinized the former reward system which was called the traditional approach, mainly reigning the 1960s and 1970s. In this period, the salary administrator was considered as a subordinate position in the organizational structure, also telling everything

about the relevance of this part of the business. With the emergence of performance management during the 90s, the former appraisal schemes became obsolete. As Schuster and Zingheim (1992) also indicated in *The New Pay*, ‘traditional pay practice was not unplanned or poorly directed’ rather it showed the need of attracting, motivating and retaining employees, mainly because it has focused on competitive attribute instead of tactical or strategic matters. The former remuneration system perfectly reflected the organizational configurations featured mainly by bureaucracy, hierarchy and vertical communication system (Armstrong, 2002). As part of this inflexible, sometimes fragmented structure, job evaluation was frequently too complex and bureaucratic.

Duncan Brown (2001) indicated that during 1980s payment related matters had been strongly affected by government policy and tradition. In this period, significant scholars such as Barry Curnow, President of the Institute of Personnel Management (currently the Chartered Institute of Personnel and Development) claimed that reward strategy is “at the crossroads between a restricted past and a future of great opportunities (Brown, 2001)

As it was already mentioned in the beginning of this chapter, the earlier decades meant the end of this old system and with new more horizontal and flexible organizational structures, the reward system also fundamentally changed. The former incremental pay structures were mostly disappeared with the suddenly emerging concept, performance-related pay (Armstrong, 2002).

New trends encouraged this change in 1980s which according to Armstrong was the decade of greed, money becoming as the main motivating factor for employees. During this period, remuneration initiatives such as the share options and different bonuses became widely used in the private sector. Major changes have occurred in payment system due to changing priorities and nature of organizations, mainly effected by increasing competition. Recognizing

the necessity of rewarding groups instead of individuals also altered the organizational configuration and these changes were defined by Grayson (1986). He also compared the ‘to date’ payment system with a predicted future payment system (see **Table 1**).

4.2 The transformation period

As Thorpe (2000) also emphasized, the new structural configuration extensively focusing on teamwork, re-emergence of economic value has significantly affected also the reward systems. On the other hand, scholars applying human resource management have also recognized the effects of strategic choice upon corporate performance, and compared to the past, individuals were rewarded, not only based on individual achievement, but also for the success of the organization and their role on that.

<i>Current payment systems</i>	<i>Future payment systems</i>
Unilaterally designed by management.	Collaboratively designed by management and employee representative.
Limited objectives concerned with recruitment and retention.	Wider objectives linked to business strategy.
Emphasis on levels of output.	Emphasis on levels of overall performance.
Emphasis on incentive payment systems, systems linked to the individual.	Emphasis on the group or company-wide-individual as part of a team.
Emphasis on task and specialisation: individual skills confined to a single type of operation.	Emphasis on competence and flexibility; rewards for multi-skill acquisition.
Emphasis on individual jobs with separate, distinct job identities, details job descriptions.	Emphasis on whole work systems: broad job outlines.
Many grades: multiple in-plant structure.	Few grades: single plant-wide structure.
Heavy emphasis on pay increases linked to annual negotiation.	More emphasis on pay linked to annual company performance, and additional skill acquisition.
Fixed fringe benefit programmes.	Flexible fringe benefits. Cafeteria plans or cash payments in lieu of fringe benefits.
Different conditions of employment for different groups.	Common terms and conditions of employment for all groups.
Multiple occupational job evaluation schemes applied to separate groups.	Single company wide job evaluation schemes.

Table 1: The characteristics of existing and future pay systems

Source: Thorpe, R. (2000). Reward strategy In Thorpe, R. and Homan, G. (Ed.) *Strategic Reward Systems*. Essex: Pearson Education Ltd., p. 31

From the aspect of strategic change and also theories related to trust were applied in a research written by Chenhall and Langfield-Smith (2003) who investigated a manufacturing firm's 15 years of strategic change. As it was stressed by the authors (Chenhall and Langfield-Smith, 2003), compensation systems and performance measurement became a significant part of management control system and simultaneously, the formulating and implementing corporate strategies. Subsequently, performance measurement also cannot be separated from reward system, mainly because these two fields of areas encourages employees to achieve planned strategic goals (Chenhall and Langfield-Smith, 2003).

Armstrong (2002) attributed to the appearance of "reward management" the beginning of the transformation period in respect to reward systems. There was a tendency of oversimplifying this new phenomenon, mainly relating to money. On the contrary, reward management also paid attention to non-financial rewards which generated motivation in the work force. However, this was only the first challenge in the salary administration, following innovative competence and skill-based rewarding and recognition of partnership, employee, trust and transparency involvement (Armstrong, 2002). *The New Pay* written by Schuster and Zingheim was dedicated to investigate this new phenomenon and its effects. With regard to the pay in the United States, the authors (Schuster & Zingheim, 1996) collected five realities which contribute to the change of American organizations strictly during the 1980s and 1990s:

- Emerging global competition among businesses within the United States as well as internationally created economic transformation and as a consequence, organizations had to be also more productive in order to avoid failure.
- New technologies, as a major factor in global business, left a major impact on job requirement and eligibility for the tasks related to that. This will also raise the competition among people.

- The significance of the service sector, especially due to the new technologies, will increase as a consequence of reallocation of the nature of work thanks to more relevant supplying and utilizing information. Demand regarding new positions will switch from the production to the service industry.
- Becoming really difficult for workers to maintain their standard of living if they are not able to raise real income in the 1990s comparable to 1980s unless productivity improves.¹
- Fewer new people enter to the labor force and decreasing or flat real income.

Besides these realities, they (Schuster & Zingheim, 1992) also prescribed the basic principles of new pay such as:

- Companies are able to remain competitive due to their employees, thereby organizations have to focus on establishing partnership with them.
- Management is about leadership, not hierarchy and bureaucracy.
- Remuneration is above all employee relations issue, meaning that workers can determine if the values, reward systems and culture of organization fit to their own.
- Relevance of employee communication for success. Payment may have a strategic role in delivering the appropriate message about the values, standards and expectations.
- Indirect pay, variable and base are part of remuneration strategy.
- New pay begins with external labor market without forming internal equity through the whole organization.

¹ A very similar situation can be observed in the current global labour market and also global economy. If developed economies, mostly Western governments, cannot find a way out from a current crisis it will be hard for workers to increase real income.

- The main impetus in new pay is the utilization of variable pay to employee groups compared to the majority of organizations which tend to pay the basics.
- Obviously, one of the main disadvantages of variable pay is that it is able to form alliance between the organization and the workers, this way encouraging for higher performance, teamwork and cooperation.
- Compared to previous forms, the new pay is based on individual and simultaneously team rewards, furthermore focuses on partnership, meaning the worker benefits from corporate success.²
- Finally, organizations have to agree on a sustainable total compensation mix along with the level of benefit costs.

A really interesting point was mentioned by Schuster and Zingheim (1996) which became valid again after watching the economic debate of the last years: “to survive, American industry must have a new view of the future”.

4.3 Trends in reward

As Schuster and Zingheim (1993) claimed in their article *Building pay environment to facilitate high-performance teams* “dynamic change and increased competition, which characterize business in the 1990s, most likely will accelerate the trend toward high employee involvement. This was only one of the numerous trends which were extensively negotiated by others. Armstrong together with Murlis (2007) extensively scrutinized the different trends within reward system in their mutual work called *Reward System: A Handbook of Remuneration Strategy and Practice*. The authors (Armstrong and Murlis, 2007) collected

² Indeed, this type of reward system became highly criticized since the Enron case, when the corporate leadership deliberately boosted the share prices, thus receiving higher income.

ten major trends which according to their experience affected reward system: (1) the new realism; (2) total reward; (3) job evaluation; (4) equal pay for work of equal value; (5) contribution-related pay; (6) flexible benefits; (7) line manager capability; (8) career family structures; (9) broadbanding; (10) and engaged performance.

Stephen Pilbeam and Marjorie Corbridge (2006) have split into two main groups, internal and external shapers, the factors which affected trends in reward management. Internal shapers contain strategic and integrated reward approaches in connection to human resource management; the culture of the organization, such as managerial beliefs on factors which motivate employees; the expected reward by the employee; the nature of the task; and employee negotiation arrangements (Pilbeam and Corbridge, 2006). On the other hand, external shapers could include every economic and political factors which independently from the company affects its reward policy, such as labor market surpluses or shortages; economic climate; public policy on employment; altering configuration of work and industrial changes in types of work; public policy on labor for instance the influence of EU Directives; technological developments; and pay legislation such as the statutory minimum wage or tax breaks. Considering these shapers, they are significant as the authors (Pilbeam and Corbridge, 2006) also stressed; however, they have to be treated as general rather than general factors. Stredwick (2000) recognized the continuous alter of pay with the help of identifying the characteristics of treating pay from the aspect of expense and means to competitive advantage.

The Price Waterhouse/ Cranfield Survey (Fillela and Hegewish, 1994) has also differentiated several trends in reward strategies internationally and gave examples for them. First of all, they identified the relationship between approaches to collective bargaining and pay determination. Secondly, the recognized that there is a trend towards flexibility, avoiding the

collective and centralized determination of pay. As a third, the implementation of the flexible reward system was more and more determined lower levels of the management within organizations. Furthermore, the general trend of increasing variability of pay is having a bigger role, such as merit- and performance-related pay or profit sharing (Fillela and Hegewish, 1994). As Eugene Mckenna and Nic Beech (2008) stressed beside these factors, the size of the company could play a relevant role in shaping the new forms of reward systems. In addition, some general trends such as local culture and the implementation of the reward strategy can also influence the styles of reward which would be chosen based on them.

Total reward stresses the relevance of taking into consideration every single detail of reward as a coherent overall idea (Armstrong and Murlis, 2007). This concept became essential during the 1990s with the perception of trying to maximize the impact on reward initiatives upon commitment, job engagement and motivation. It also contains other aspect of managerial activities such as recruitment, talent management and retention. This perception also contributed to the organizations in involving the role of non-financial rewards, such as recognition schemes. Total reward also supports the organizations to think about their employee proposition, considering also the different aspects why people would join and stay with the company. Indeed, conventional parts of reward management, like pay or bonus, play a significant role. This also requires employees with all-around experience inside the organization thus understanding all aspects of the organization and creating a closer, more flexible working environment among the colleagues. Consequently, the reward system has to be adjusted to this and be flexible in order to successfully motivate all workers (Armstrong and Murlis, 2007). On the other hand, according to Armstrong and Murlis (2007) the latest and most relevant development was the use of career and job families. *“A career family structure is one in which separate job families are identified and defined but a common grade*

and pay structure applies to all the families". Indeed, it is not a new innovation and career and job families concept were utilized way before.

In broad banding, companies basically pay more attention to compatible needs of a flexible working environment. Indeed, most of the organizations tried to achieve greater job, career and market (Brown, 2001). Some companies tried to stress the personal development and contribution, rather than accepting points-scorer who would like to achieve promotion.

Nowadays, there is a totally different structure, explicitly a more diverse and complex pattern, requiring a much more complex and diverse pattern, including the necessity of a more strategic approach, basically copying new practices from other multinational companies (Armstrong and Brown, 2006). Axiomatically, since the 1990s, some of these trends amplified, on the other hand changed and additional factors also started to affect the reward systems. Currently, the authors (Armstrong and Brown, 2006) recognized four major trends in the current labor markets. First of all, due to the emergence of more mixed foreign populations, governments started to use more local managers at senior levels, and quicker localization of expatriate staff. Furthermore, many companies use short-term and distance assignments via Internet, subsequently, establishing longer business travels and international commutes, and localized transfers too. Cost pressures became a leading challenge to the balance sheet reward approach, which is not always applicable to the expatriates in every location. Finally, companies started to pay attention not only to their worker, but also the family, especially to the partner and family.

As it was also discussed earlier, contribution-related pay was introduced by Duncan Brown and Michael Armstrong in their book, *Paying for Contribution: Real Performance-Related Pay Strategies* (1999), fundamentally changing the former competence related or performance related pay. **Table 2** compares the two concepts from the aspects.

As the authors emphasized performance-based pay is something which just simply does not work for several reasons. Armstrong and Duncan (1999) were affected a western prospective, compared to other American authors, they from the aspect of Great Britain. Individual performance-related pay started to spread first around white-collar staff in the 1980s. The majority of the British companies were functioning according to this concept.

	Pay for Performance	Paying for Contribution
Organizing Philosophy	formulas, systems	processes
HR approach	instrumentalist, people as costs	commitment, people as assets
Measurement	pay for results, the 'whats', achieving individual objectives	multi-dimensional, pay for results and 'how' results are achieved
Measures	financial goals	broad variety of strategic goals: financial, service, operating etc
	cost efficiency	added value
Focus of measurement	individual	multi-level: business, team, individual
Design	uniform merit pay and/or individual bonus approach throughout the organization	diverse approaches using wide variety of reward methods, to suit the needs of different areas/staff groups
Time-scales	immediate past performance	past performance, and contribution to future strategic goals
Performance management	past review and ratings focus top down quantitative	mix of past review and future development 360° quantitative and qualitative
Pay linkage	fixed formula, matrix	looser, more flexible linkages, pay 'pots'
Administration	controlled by HR	owned/operated by line/users
Communication and involvement	top down, written	face-to-face, open, high involvement
Evaluation of effectiveness	act of faith	regular review and monitoring against clearly defined success criteria
Changes over time	regarded as failure; all or nothing	regular incremental modification

Table 2: Comparison of 1980s style for performance approaches with pay for contribution

Source: Armstrong, M. and Duncan, B. (1999). *Paying for Contribution: Real Performance-Related Pay Strategies*. London: Kogan Page

4. 4 Summary

This part would like to summarize the most significant theories and concept which were mentioned in connection to trends in reward system. It also assists to the reader in having clearer idea about the trends changed the reward system in the past 30 years. Despite the strategic relevance of reward system within human resource management, only a little group of scholars tried to investigate the trends which deeply affected it in its transformation from 1980s until today. Traditional reward system reigned the 1960s and 1970s, mainly featured bureaucracy, vertical communication system and hierarchy. During the 1980s, tradition and government policy left a deep impression on reward management, changing the incremental pay structures to a performance-related pay. However, after a short period due to the financial and economic theories reigned the 1980s and 1990s, mostly characterized by deregulation, reward management changed from performance-based pay to contribution-based pay.

Armstrong and Murlis (2007) collected ten major trends which according to their experience affected reward system: (1) the new realism; (2) total reward; (3) job evaluation; (4) equal pay for work of equal value; (5) contribution-related pay; (6) flexible benefits; (7) line manager capability; (8) career family structures; (9) broadbanding; (10) and engaged performance. However, these periods cannot be used as universal principle, rather than a regional basis, therefore the factors which have been influencing these changes, are different region by region. Pilbeam and Corbridge (2006) divided these factors to external and internal shapers, which indeed contributed in a different way and level in every single countries.

5. HRM and Reward Systems in Transforming Economies

A characteristic of countries of Central and Eastern Europe countries was that after the end of the Second World War they were ruled by communist governments mostly characterized by planned and state-run economies. The collapse of the Soviet Union meant the beginning of a domino-effect and as a consequence, communist governments have also started to alter politically and economically. After the fall of Iron Curtain in 1989, began a fundamental transformation of the region from state run to a liberal democracy. Thorough this part of the research paper, the reader will be able to understand the influence of transition process on the development of human resource management, with a special focus on changes in employee reward systems. The investigation will partly cover the transition region in general.

5.1 Historical review

The beginning of transformation was dependent on the national circumstances (Rose, 2009). Economic transformation, as it will be negotiated in the next subchapter, involves different types of alterations sometimes dependent on economic theories related to ideologies. This part of the research paper only scrutinizes in a nutshell the Middle- and Eastern-European political and economic transformation. It helps to understand the complexity of reward system and human resource management in the Balkan, including Macedonia. However, this part will not introduce the Macedonian case, as long as a whole chapter is dedicated to this question.

There were several research papers (Rossides; Pearce et al., 1994; Milikic and Janicijevic, 2009) and books (Rose, 2009; Islam and Mandelbaum, 1993) which applied the economic transformation in the post-Soviet period in the Eastern European region including Hungary, Slovenia and Serbia. Indeed, because of the similar cultural and historical background, Slovenian and Serbian cases have to be scrutinized in more detailed, especially they can

directly as well as indirectly influence the Macedonian economic and political situation. These transition in some countries happened peacefully without any blood, for instance in Hungary, however they did not have to face bitter territorial debates after the fall of communism. Other countries like Czechoslovakia or Yugoslavia as part of Soviet paraselene, constituted one single state lead by a Communist party, despite the fact that their inhabitants belonged to different nations and ethnic groups. Czechoslovakia was able to handle this new situation peacefully and split into two different countries, Slovakia and Czech Republic. However, the Yugoslav question was more complicated in nature, showing the number of current existing countries involved in this subject: Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, Serbia. As Rose (2009) also indicated, Yugoslavia haven't participated in the alteration of the Soviet regime, however, *"its leaders were challenged by demands for independence from the six constituent republics of federal state"*. The federal government abolished the monopoly of the Communist party in 1990 and held elections in every republic. The governments overtaking the power have started to seek the possibility for independence from the federal government in Belgrade. As first in 1991, Slovenia and right after Croatia declared their independence (Rose, 2009). Fights broke out among the Croatian, Serbian and Bosnian people, but this time Macedonia remained peaceful. On the other hand in 2001 February and August, there were clashes between the government and ethnic Albanian insurgents which ended with a NATO intervention.

5.2 Reward management in transforming economies

First of all, before reward management would be scrutinized in transforming economies, it has to be defined what is understood under transforming economy or economic transformation. Based on the definition of Syrquin (1988) on economic transformation, Breisinger and Diao

(2008) lacked the general theory of economic development and concluded that *“it characterized by a period of rapid per capita growth combined with structural change”*.

Hence, structural change means the alteration in determining parts of economic sectors, frequently calling this process economic transformation. In the majority of the cases, transformation happens for the reason of modernization in a country's institutions, society and economy. Based on this, economic transformation always had a major impact on human life.

Indeed, economic transformation happens for a reason, usually it is encouraged by a group of people who had different kind of dissatisfaction, i.e. political or social, mainly featured the previous system. Economic transformation is not an easy process and it has many opportunities, on the other hand, challenges as well. Furthermore, it can be determined that there is a tight correlation between economic transformation and trends in reward system. New reward system is one of the results of economic transformation; otherwise a dissatisfactory reward system can also lead to economic transformation.

Dan Candea and Rodica M. Candea (2001) also named as a major challenge the developing of new human resource practices in their work on Romanian companies and their transformation from communism to the free market. As they stated (Candea and Candea, 2001) the implementation of this human resource change might occur in various ways. The first possibility is that “the personnel planning done by the HR function should have in view the employment and development of such skills and capabilities as required by the new processes to be performed in the organization”. Secondly, the recruitment and selection process has to be adjusted to the need of selecting already those potential applicants who could be the face of organizational change including corporate culture. Indeed, the new as well as former employees' personality have to fit to these new values of the organizational structure, on the other hand, the company has to provide them suitable training or promotion thus assisting in

the adjustment to the new duties and overall environment (Candea and Candea, 2001). Other opportunities, such as socialization or accommodation of the new staff members can be used as a tool for passing the newly agreed organizational values and customs. New practices in reward and performance management, furthermore in incentives system would confirm in the staff that the company acquired new values including the organizational culture. As Candea and Candea (2001) also expressed “the reward system reflects the company’s “philosophy” relative to the mutual relation between performance and reward and therefore, it sends very powerful signals into the organization and outside”.

Another remarkable research was presented by Pearce, Branyiczki and Bakacsi (1994) who tested “a theory of the affective and behavioral effects of the organizational reward systems in Hungarian state-owned organizations in early period of economic transformation”. This paper tried to scrutinize the person-based organizational reward system which characterized the organizations in the communist era in the form of personal power. The authors (Pearce et al., 1994) were certain upon the possibility of implementing person-based reward systems, which basically consists two components:

1. Highly valued rewards
2. Personal criteria for reward distribution.

To the highly valued rewards, they classified the three most important organizational rewards which distributed to employees in every organization level in Hungary:

1. Bonuses
2. Promotions and perquisites
3. Access to resources.

The authors also compared the person-based system with the performance-based systems. As a result in the survey, they received that the organizations with person-based system considered as less fair than people working under performance related organizational reward systems. Furthermore, employees working under person-based organizational reward systems would write more negative evaluations of their supervisors than the others in a different reward system (Pearce et al. 1994).

Besides testing this theory, the authors (Pearce et al., 1994) offered a significant insight about state-socialist societies. In this system, usually authorities responded to criticism “with a declaration that the proper measures have been taken and the problem no longer exists” (Pearce et al, 1994). A considerable and valuable remark pointed out that formerly communist countries try to seek how to transform their economies. Many of the structural features did not change, for instance the domination of state ownership in Hungarian economy, despite the fact that the organizational reward systems have been changed by the new political conditions. Previous feelings such as unfairness or distrust earlier pervaded working places still can be found and according to the authors (Pearce et al. 1994) will remain in the system.

The mere reality in Russia after the collapse of the Soviet Union was more ferocious. Based on the current values of ‘modern society, *“the inability to pay wages or a pension is indicative of governmental failure”* (Rose, 2009). In the first years of transformation, the main threat to workers was going without wage surprisingly, instead of unemployment (Rose, 2009). This meant that frequently employers kept their employees despite the fact that they were not able to pay them. Due to the unstable economic and political situation, most of the people haven’t seen any potential job, thereby they preferred to remain a non-waged workers with the hope of being paid in short period or just take unpaid time off thus working in unofficial economies or household. Challenges like these were common after the communism

and economists reached a consensus on the duties with regard the transformation of these centrally planned communist economies to a capitalist market economy (Islam and Mandelbaum, 1994):

- Systemic change;
- Macroeconomic stabilization;
- Liberalization and
- Restructuring.

As it was mentioned earlier, in some countries the ideological and economic transformation come together for instance in the former Soviet Union countries, however, some countries remain at an ideology, determining the way of life, but change their economic system. China could be mention as a great example for the latter group, where “the administrative allocation of life-time jobs by the state, the virtual non-existence of unemployment, redundancy or retrenchment, and a strict separation maintained between urban and rural labour” (O’Leary, 1992). Since then, China went through an economic transformation becoming one of the economic superpower of the world. The foreign direct investment and outsourcing the production to China by western companies, contributed to the soar of its economy.

5.3 Reward systems in post-Soviet states

Nicos Rossides applies with the question of the new free market economies in the post-Soviet bloc. As Rossides claimed, this presented both challenges and opportunities, mostly related to *“human resource nature, including lack of appropriate trained leaders, an education system that elevated technical ability above client facing skills, a shortage of linguists, marketers and financial professionals, and an inappropriate reward and remuneration system”*. With regard

to leadership theory, the business leaders have to accept that ‘command and control’ is not the most appropriate way in the current business world and they have to recognize that employees play a key-role in improving productivity. Tomislav Sunic (1989) applied the theory of Zinoviev from the field of sociology claiming that *homo sovieticus*³ behaves and lives in a communist system dominated by Marxist ideology, than a Western counterpart. The author (Sunic, 1989) added that “*the communism is a system whose social devolution has enabled the masses of communist citizens to develop defensive mechanisms of political self-protection and indefinite biological survival*”.

Zinoviev refuted the idea that communism was only believed by the party officials and claimed that it was the “*way of life shared by millions of government officials, workers, and countless ordinary people scattered in their basic working units, whose chief function is to operate as protective pillars of the society*”. Zinoviev’s statement is correct, however, it has to be mentioned that the “*the communist way of life*” was constrained by force on millions of people and they did not choose this lifestyle. Those who tried to split with the communist roots were either intimidated or exterminated. Sunic (1989) also quoted Claude Polin a French author who analyzed the communist totalitarianism similarly to Zinoviev’s views, and claimed that “*the very economic inefficiency of communism paradoxically provides much more chances to success for a much larger number of individuals than a system founded on competition and reward talents*”. As Rossides summarized the thoughts of Zinoviev, the autocratic regimes lead by the ideology of communism created an attitude where have been a lack of initiative, indifference to results of one’s labor, furthermore acceptance of government orders without any comment. These characteristics were contrary to the Western mindset and raise a lot of challenges especially to the service sector in transforming economies.

³ *Homo sovieticus* refers to an average person who lives in a communist system.

Configuration change is indeed necessary in these human resource systems in order to succeed in the future. Language skills and reward systems as part of human resource management are fundamental areas which would have to be changed. As Rossides stated *”remuneration and reward systems needed to be restructured, away from seniority to more merit-based system, with greater emphasis placed on quality of output, not just meeting sales or manufacturing quotas”*.

Transition to market driven economy was a stimuli for many socialist countries to introduce management theories and apply tools that were recognized and used in many developed countries and successful companies world-wide (Milikic and Janicijevic, 2009). A broad recognition and awareness was given, among others, to human resource management. It has become an important part of a company policy regardless of their size or industry sector. However the role and importance of human resource management differed between different transition economies. This phenomenon was explained through following factors: starting point and the speed of transition, the cultural background, the competence of human resource professionals, the scale of service sector and the size of organization (Milikic and Janicijevic, 2009).

According to the empirical research of Milikic and Janicijevic (2009), two of former Yugoslavian countries, Slovenia and Serbia similarly to Europe use the performance appraisal or also used as performance-related pay. The authors attribute this to the strong collectivism and femininity, *“promoting equality among all group of staff categories”* based on Hofstede’s dimensions. They (Milikic and Janicijevic, 2009) also added that equality is an applied principle in distributive justice within Serbian companies. Furthermore, *”egalitarianism, a frequent value in pre-industrial, collectivistic cultures, restrains the pay for performance, since it enlarges the differences between individual rewards among*

employees” (Milikic and Janicijevic, 2009). Serbian companies, unlike European, apply performance related pay to clerical, manual and professional staff than to managers. The case is also the same in the case of Slovenia.

In an economic transition, especially from a state-lead such as communism to a privately lead like market economy, privatization is a significant part of economic change. It is also a fundamental change in the corporate leadership. A private firm faces totally different challenge from the aspect of leadership management than its predecessor. On the other hand, a difference has to make among private firms. Michael W. Peng (2000) distinguished four types of firms based on their leadership: (1) employee-controlled; (2) manager-controlled; (3) owner-controlled; and (4) investor controlled. He (Peng, 2000) also classified the benefits and problems for to each type (see **Table 3**).

Milikic and Janicijevic (2009) also claim that performance related pay has to be more often offered to managers than to other staff due to their higher impact on company’s overall performance as well as the higher sophistication in implementing their duties. The authors found two possible answers for this case. At first, which most likely derives from the Serbian values of the national culture, the high level of power distance thwarts the possibility of measuring or controlling managerial performance. Secondly, the Serbian companies are not aware of the design and implementation of a system to measure the performance. As Milikic and Janicijevic (2009) concluded *“transition process, per se, may explain almost all differences between human resource management practices in Serbia and Slovenia, since it managed to overcome cultural barriers imposed by some dimensions of Slovenian (and Serbian) national cultures regarding performance appraisal, flexible patterns of work, recruitment of managers and merit/performance pay”*. As a consequence, Serbia would be able to acquire the human resource model already in use in Europe, and successfully

overcome the transition period to market economy. Indeed, this could be an example for other countries in the Balkan such as Albania, Macedonia or Kosovo but they still have to face other challenges.

<i>Type of Firms</i>	<i>Benefits</i>	<i>Problems</i>
Employee-controlled	<ul style="list-style-type: none"> • Reduced agency problems 	<ul style="list-style-type: none"> • Inefficient decision making • Work well only when firm size is small and employees are homogeneous in skills and interest
Manager-controlled	<ul style="list-style-type: none"> • Reduced agency problems • Short-term boost in performance 	<ul style="list-style-type: none"> • Possibility of management entrenchment • Long-term competitiveness may be sacrificed
Owner-controlled	<ul style="list-style-type: none"> • Simple structure • Reduced agency problems 	<ul style="list-style-type: none"> • Small scale • Inability to raise large sums of capital
Investor-controlled	<ul style="list-style-type: none"> • Able to raise large sums of capital and attain large scale and scope • Professional managers • A number of corporate governance mechanisms to protect shareholder interest 	<ul style="list-style-type: none"> • Complex and bureaucratic • Separation of ownership and control, which may be breeding ground for agency problems • Limited effectiveness of corporate governance mechanisms

Table 3: Types of private firms

Source: Peng, M. W. (2000). Business Strategy in Transition Economies. London: Sage Publications. p. 109.

5.4 Summary

As it was discussed in this chapter economic transition can happen together with political and social transformation for instance in the post-Soviet countries and also without it for instance in China. The success of transformation economy is highly depending on their sources and capabilities within their borders. Transition from an economy characterized by communist

principle to a market economy is definitely a challenging process. Central and Eastern European countries had to deal with the necessary political, economic and social adjustments, in which human resource management still play a significant role. The political transition happened a little bit more two decades ago, thereby numerous characteristics still can be found in the current economic and political systems.

Each country had to go through its own path after the collapse of the Iron Curtain, subsequently, we could observe peaceful birth of countries from unity for instance the Czech Republic and Slovakia, but in other places this turned out to be a merciless war with many war crimes like in the former Yugoslavian states. Furthermore, there is also example for internal clashes within a state, where different ethnicities embody a society and they cannot easily overcome in matters which are important for them. Currently, most of these states face with new challenges which already incorporated by economic growth and better standard of living for their citizens. This chapter also gave insights to the challenges of Central and Eastern European States, such as Slovenia, Hungary, Romania, Serbia. Each of these countries is in a different level of development from political, social and economic aspect. Indeed, this transformation is not absolutely successful, for instance when the political sector goes through an alteration but they still have a say to the economic life. This happens most frequently, when the political sector has an overwhelming role in the operation of a country. The Central and Eastern European countries are facing still with this problem. On the contrary, sometimes the private sector itself has unprecedented power above the political sector like in the United States. Founding the offset between the two systems can lead to a politically, socially and economically successful model.

As it was mentioned earlier, human resource management and reward systems play a significant role in this economic transformation. New recruits with appropriate personality

profile can be the face of an economic transformation for which these youth need training. However, the employee of the former system cannot be forgotten and those who deserve have to receive promotion thus showing example for the new workers. As it indicates, human resource management is more than significant in the transformation of an economy where challenges *“including lack of appropriate trained leaders, an education system that elevated technical ability above client facing skills, a shortage of linguists, marketers and financial professionals, and an inappropriate reward and remuneration system”* (Rossides) can lead to potential pitfalls and organizational malfunctions.

6. The case of Macedonia

Republic of Macedonia for more than 45 years was a constitutive country of federal state of Yugoslavia. In 1991 it has declared its independency and simultaneously started the transition process. The population in Republic of Macedonia counts above 2 million and it is predominately orthodox. The unemployment rate remains among highest in the region with 31,4% as estimated in 2011 and GDP per capita was only \$10,500.⁴

6.1 Macedonia during the communist regime

Macedonia like all other communist countries has used a centrally determined wage grid to set the wages of those who were in the labour force. According to Munich, Svenjar and Teller (1999) the wage grid was introduced by the government leaving little discretion for wage settings at enterprise level by managers or trade unions. Wage levels were a function of the individual's education, experience, occupational classification and the industrial sector of the job. The productive sector which included industry, construction and agriculture was favored, therefore wages in this sector were boosted compared the unproductive sector.

In addition to regulating wages, the central planners regulated employment and admissions to higher education. Jobs were provided for everyone and employment security was assured. For higher level jobs, assignment was usually based on political loyalty (Munich et al, 1999).

Workers in socialist enterprises enjoyed substantial fringe benefits in the form of basic social services for themselves and their families such as health care, education, child care, generous maternity and sick leave, subsidized housing and vacations, and pensions (Vodopivec 1990).

⁴ CIA - The World Fact book

Furthermore, under the communist regime there was no unemployment in the labour market. Full employment was achieved through overstaffing, which meant that enterprises were employing more workers than was necessary to produce the given output. This meant “unemployment in the job” and low labour productivity, which translated into low wages (Rutkowski, 2006).

The first efforts done to boost the productivity were the ones undertaken to replace the direct method of wage regulations with the indirect one. The direct method of wage regulation involved assigning a wage bill that depended on the fulfillment of output targets. The indirect method still relied on countrywide determination of the basic wage rate (by skill exertion matrices) but use value measures (such as value added or gross output) to calculate an enterprise’s performance index. This index is then used to determine the “socially appropriate” level of the wage bill (Vodopivec, 1990).

Yugoslavia started to use the indirect method of wage regulation since 1950s. According to Vodopivec (1990) Yugoslavia was not only the first but has possibly gone the furthest in the originality and sophistication of its wage regulation. Unlike other countries, it has used skill-exertion matrices to determine relative proportion of personal earnings, not the base level of wage. The entire wage bill is left completely undetermined in advance (except for minimum wage provisions).

The performance index was assessed on the basis of the performance not only of the respective enterprise but of the industry and economy as a whole (Schrenk, 1981). The performance index is corrected to reduce wage differentials among enterprises. On one hand, workers in successful enterprises are allowed to earn above the average wage, but are subject to progressive taxation. On the other hand, although workers in below-average enterprises earn below-average wages, they are effectively subsidized (Vodopivec, 1990a). So even

though Yugoslavia differed with the process of wage regulations from other communist countries, it still tented to level differences in personal earnings like other countries of communist regime.

In late 80s and early 90s the constitutive states of federal state of Yugoslavia started declaring its' independency, which in most cases was achieved through war. Macedonia declared its' independency in 1991 and simultaneously entered the transition process. Transition process was very difficult for the small country as Macedonia and was followed with many difficulties, which unfortunately are still present. A closer insight to these problems will be discussed in the next part of this paper.

6.2 Problems with the transition process

When discussing the problems that came along with the transition process of Macedonia, we will focus on Macedonia's labour market.

The labour market in Republic of Macedonia has majority of characteristics which are common for transition economies. Those characteristics are low participation and employment rate, high unemployment rate, long term unemployment, high unemployment rate among youth, people with lower education as well as large regional employment inequalities and large earnings discrepancies between cities and other localities in favor of cities (Krstic, 2004).

In Macedonian labour market the unemployment rate equaled 31,4% in 2011. Although we have a decline in the unemployment rate compared to previous years, this progress is very slow (See **Table 4**). A high unemployment rate could be a result of bad transition process and a result of an economy which in last two years is creating very little jobs compared to period

from 2006 to 2008 (See **Table 5**). Moreover, a worrying fact according to Blazeovski and Kurtishi (2011) is a high unemployment among young people, especially the ones with tertiary education, which is considered to result from an increased number of graduates, whose number has tripled from year 2000.

Table 4: Unemployment and participation rate in Macedonia

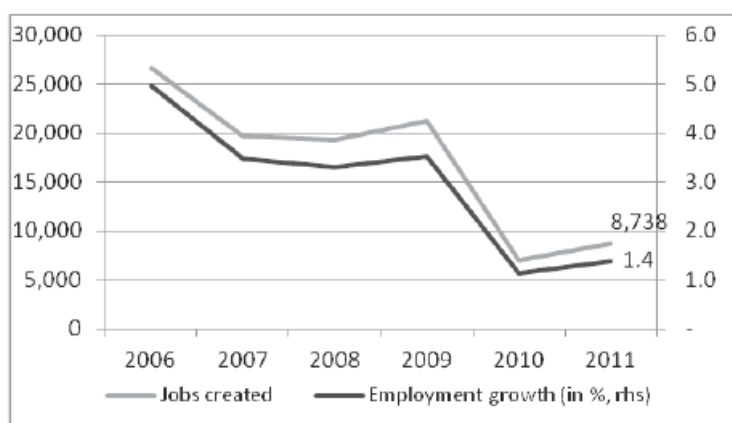
	2006	2007	2008	2009	2010	2011
Participation rate	62,2	62,8	63,5	64,0	64,2	64,2
Unemployment rate	36,3	35,2	34,0	32,3	32,2	31,6

Source: Blazeovski, Kurtishi, (2011) - author's calculations based on data from State statistical office and Eurostat

There are also concerning facts regarding the labour market participation, which in 2011 was 64,2% (See **Table 4**). Low participation rate can be attributed to few factors such as:

- the very low number of employed
- the effect of sizeable net inflows of remittances (private transfers) from abroad and
- low participation of females (Mojsoska-Blazeovski, 2011).

Table 5: Employment growth and jobs creation in Macedonia



Source: Blazeovski, Kurtishi, (2011) – author's calculations based on data from Labour force survey, State statistical office and Eurostat

In Macedonia, just like in other socialist economies, workers were used to have regular full time wage and salary employment. According to Rutkowski (2006) permanent employment contracts were the norm and dismissals were possible only for major misdemeanor. Jobs were secure and employees were providing a range of fringe benefits. However this has changed during the course of transition. The security of jobs was lost and employees were turned to temporary employment contracts. The share of workers with temporary employment in Macedonia was relatively high at 10,8% of the total number of employed persons in 2011 (See **table 6**). About 3/ 4 of temporary employment in Macedonia is involuntary, which lies in lack of opportunities to find a permanent job.

Table 6: Type of contracts in Macedonian labour market

	2006	2007	2008	2009	2010	2011
Type of contract						
Permanent	91,5	90,8	89,4	88,8	88,1	89,2
Temporary	8,5	9,2	10,6	11,2	11,9	10,8

Source: Blazevski, Kurtishi, (2011) – author’s calculations based on data from Labour force survey, State statistical office and Eurostat

Furthermore, while the number of secure jobs has gone down, the number of precarious jobs has gone up. This changing nature of job has been associated with the growth of the informal sector, which by definition provides less protected jobs with fewer benefits (Rutkowski, 2006).

Due to economic transition there were also changes in the wage level and structure. According to Rutkowski (2006) a change in the wage level was due to a change in the level of output and productivity, while a change in wage structure resulted from changes in the wage setting mechanism, from bureaucratic and centralized one to a market based and decentralized one. From mid-1990s there has been a significant growth of wages in all transition economies,

with no exception. But this wage increase was associated with fall in employment. Therefore we have two extremes: the employed ones with higher wages and the unemployed ones with no incomes.

6.3 Employee compensation today

A study from Nikica Mojsovski Blazevski (2011) gives us a detailed analysis of wage developments in last two decades in Macedonia. A focus is being set on the impact of 2008 crisis on wages. However what we are interested in is only the part on wage setting mechanism today and its effectiveness.

As mentioned previously, in Macedonia wage setting is a decentralized process. In public sector and large private firms wages are set through collective bargaining, while in small and micro-firms are set by the management on enterprise levels.

6.3.1. Wage setting in public sector

In his research paper Blazevski (2011) makes a distinction in terms of wage setting between a civil servant who make up only 10 percent of public administration and non-civil servant who work in education sector, health, internal affairs, defense, etc.

A civil servant's wage

The wages of civil servants are regulated by the Law on Civil Servants (LCS) which was adopted in 2000. According to the LCS, wages are set based on the number of accumulated points which depend on few factors such as job position, job complexity, education, etc.

For each civil servant number of points is multiplied by value of the point. Government and council of local self-governments determine the value of the point for the central government civil servants and municipal civil servants, respectively (Blazevski et al., 2009).

The wage structure of a civil servant is consisted from the following components:

- Basic salary, position supplement and career wage supplements, and
- Exceptional components (ex. for overtime work) (Blazevski, 2011)

Basic salary depends on the employee's educational level, while position supplements reward the employee depending on the nature and complexity of the job, and the career wage supplements depend on the length of service, however are conditioned with positive performance assessments.

A non-civil servant's wage

For a non-civil servant in Macedonia wage setting and negotiation procedures are regulated through General Collective Agreement (GCA), which is signed between the government and a representative trade union. The agreement lasts for two years and it is automatically extended if not negotiated differently.

The salary of a non-civil servant is consisted from a basic salary and performance-related supplements, which are paid only if government institutions have enough budget resources.

The basic wage is based on complexity factors set for each job position which are multiplied by the lowest wage in the branch. Complexity factors and the lowest wage are set in the branch or through employer-level collective agreement (Blazevski, 2011).

6.3.2. Wage setting in private sector

According to Blazeovski (2011) besides the Labour Code, the general framework for wage negotiation in private sector is determined by the General Collective Agreement (GCA) and by the signed branch collective agreements.

The wages of private sector are consisted from the basic wage, a performance related wage and wage supplements. The basic pay is calculated similarly to the one in public sector, by multiplying wage coefficients to the lowest wage (Blazeovski, 2011). Additions to basic wage are paid to workers for the overtime work, night shifts, work during public holidays, etc. According to Blazeovski et al. (2009) workers are also entitled to compensations for sick leave, business trips, annual leave compensation, wage compensation while obtaining higher education, etc. Until 2009, employers were paying travel and food allowances for their employees, but with the introduction of gross wage system they were abolished.

6.3.3. Taxes and social security contributions

In 2009 in area of labour taxation was introduced a reform, which aimed at reduction of labour costs. Previously the wage in Macedonia was taxed by the personal income tax (PIT) and social security contributions, both paid by the employer on behalf of employees. Although with an introduction of a flat PIT of only 10 percent Macedonia belongs to countries with the lowest personal income tax, the overall tax burden remains relatively high. According to Blazeovski et al (2009) this tax burden was mostly affecting the low-wage workers, because of the minimum base for payment of social insurance contributions which was prescribed at 65 percent of the national average wage. Example, in Macedonia a worker

who earned the average wage and received free fringe benefits like food and travel allowances, faced a labour tax wedge of around 33 percent.

In order to reduce this tax wedge the government designed and implemented a reform starting from January 2009, which consisted from the following:

- Full harmonization of assessment bases for social contributions
- Reduction of social contribution rates from 32% in 2008, to 27.9% in 2009 and to 22% in 2011
- Reduction of the minimum floor for the payment of contributions from 65% to 50% of the average gross wage in the economy
- Introduction of a gross wage concept of wage negotiation and contracting
- Integrated collection of PIT and social insurance contributions by the Public Revenue Office (Blazevski, 2011)

This reform has many positive outcomes like:

- Transparent and simple system of payroll taxes and labour costs
- Reduced administrative burden on firms
- Improved control over payment and hence reduction of the grey economy
- Greater job creation as a result of the reduction of the tax wedge for low-wage earners and
- Greater social insurance for workers (Blazevski et al. 2009).

Also an introduction and implementation of gross wage system itself has many positive effects and fringe benefits for both the employers and the employees. From employers perspective these benefits would include the following:

- Reducing labour costs
- Reduce the administrative burden and
- Reduce the total cost of employment (Uznov, 2009).

While the advantages of gross wage system from employee perspective would include:

- Having full insights into the amount of the gross income and all categories that are incorporated into the gross salary
- Gaining security for the payment of mandatory social contributions and
- Creating opportunity for wage increases, especially in the lower or higher pay categories (Uznov, 2009).

The purpose of this reform will be to reduce the administrative burden and complex calculations of gross and net salary, which will significantly increase the transparency of the overall recognition of the labor costs. This is an important fact from the aspect of domestic companies in preparing their business plans, but also to potential foreign investors. At the same time Macedonian system of pay will equal the ones of member states of EU and OECD countries, as well as most countries in the region (Manovski, 2009).

6.4 Summary

Since its' independency Macedonia is struggling with many problems in the labour market which seem to be present even now days. With an underperforming economy it faces a very high unemployment rate, low participation in labour market and a very small progress in the aspect of job creation.

Human resource management in majority of companies in the country has only administrative function and its core activities such as selection, recruitment, compensation, training and development are rather neglected and underdeveloped. The laws on employment, unemployment, compensation, labor relations, social protections and others introduced post-1991 contain insignificant inconsistencies and measures not entirely relevant for the development of the labor market.

Regarding performance appraisals and rewards Republic of Macedonia is significantly behind developed European countries. The national culture is characterized with high collectivism and therefore is individual performance less important. This fact limits the implementation of an objective performance appraisal system.

Performance based pay is used to a lesser extend compared to developed European companies and reasons behind this lay firstly in the inability of the management to implement a sound performance based pay system and secondly in the national culture of Macedonians.

Regarding the wage structure in Macedonia are done few steps to move forward toward the developed countries. Until recent it was used the system of net wages which involves a salary minus all contributions for compulsory social insurance. Afterwards Macedonia's government planned and proposed the introduction of a system of a gross pay, which will significantly increase the transparency of the overall recognition of the labor costs and will bring Macedonian system of pay closer to the ones of member states of EU and OECD countries.

7. Market Research - Employee Compensation in Republic of Macedonia during 90s and Today

This market research is done in order to ascertain the change in the employee compensation in the Republic of Macedonia between two periods of time, the one during the communist regime and the present time. What I wanted to bring to light is to see which was the most favorable period for the workers in Republic of Macedonia in terms of their compensation.

The data was collected through a questionnaire which was divided into two parts of questions, where the same questions were asked in two different times: the one before 90s and the present time. This separation was done in order to provide a clear comparison of employee compensation during two periods of time.

There were a total of 101 persons interviewed, that were engaged in various public and private organizations like hospitals, schools, banks, government institutions, etc. Into the research sample I have mainly summarized workers with over 20 years of working experience, so that the same person had gone through two time periods that are important for this research.

7.1 Demographic data

On this market research are questioned workers of different public and private companies in Republic of Macedonia like hospitals, schools, government organizations etc. The total number of respondents is N=101.

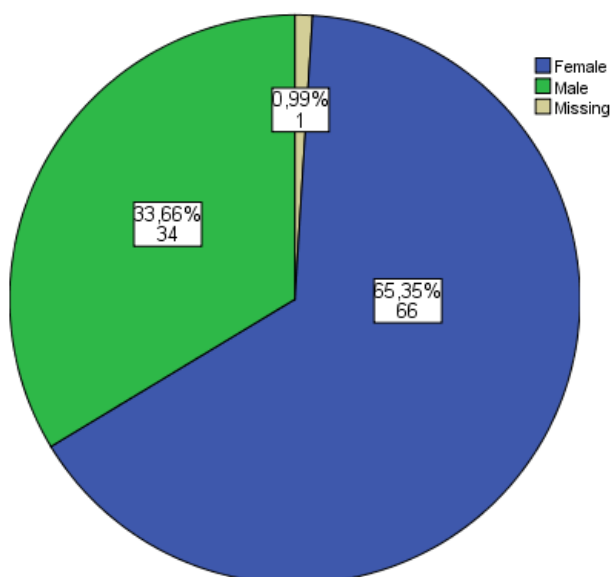
Table 7 presents the total number of respondents of this survey classified into different categories, which were considered as important for this research. According to gender classification we have questioned (N=66) female and (N=34) male workers.

Another classification is done based on the type of habitat, according to which we can classify our workers into two different categories like the one living in cities represented with (N=59 or 64,84%) of respondents and the ones living in rural settlements represented with (N=32 or 35,16%) of respondents.

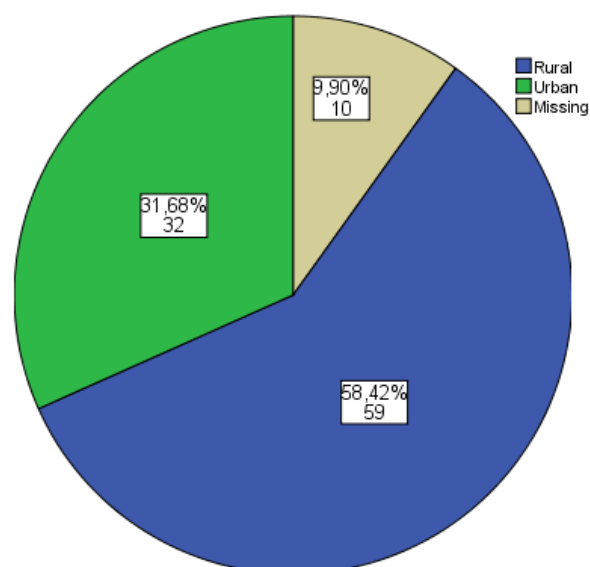
A further classification of respondents is done according to the type of organizations they were engaged in. Respondents employed in public organizations include (N=81) employers from the total number of respondents, while the ones engaged in private sector include (N=20) employers.

Table 7. The number of respondents according to gender, habitat and type of organization

		N	N %
Gender	Female	66	65,35%
	Male	34	33,66%
Habitat	Rural	59	58,42%
	Urban	32	31,68%
Organization	Public	81	80,20%
	Private	20	19,80%
TOTAL		101	100,00%



Graph 1. Respondents' gender



Graph 2. Type of habitat

Data presented in Table 7 are represented above in form of **graphs 1 and 2**, where we can see that there are few respondents who did not respond to questions related to gender and type of habitat. On the question related to gender there is (N=1) respondent who did not answer and there are (N=10) respondents who did not answer the question related to type of habitat.

Another classification of respondents is done based on their nationality, since Republic of Macedonia is a multiethnic country. **Table 8** shows there are (N=45) respondents of Macedonian ethnicity, (N=40) are Albanians and other ethnicities like (N=8) Roma, (N=3) Turkish, (N=3) Croatians and (N=2) respondents didn't declare their nationality.

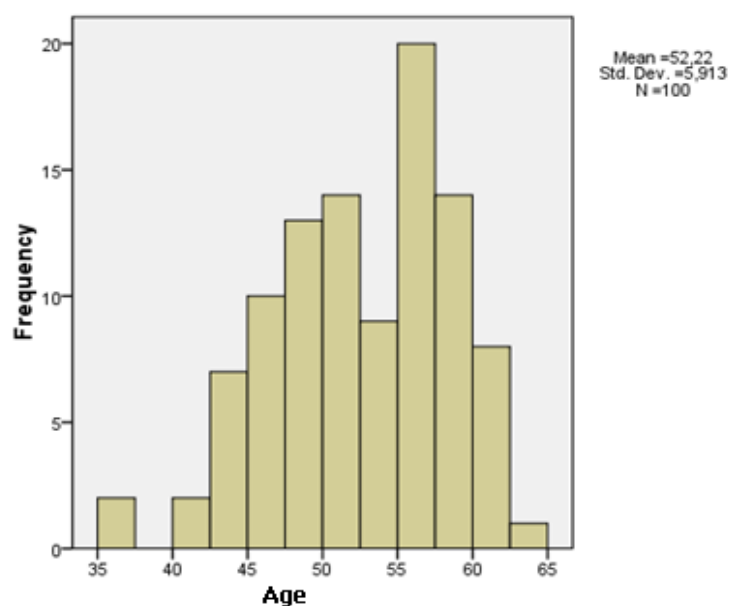
Table 8. Respondents according to their nationality

		N	N %
Nationality	Missing	2	1,98%
	Croatian	3	2,97%
	Macedonian	45	44,55%
	Roma	8	7,92%
	Albanian	40	39,60%
	Turkish	3	2,97%

Table 9 shows the average age of the respondents of this survey. The average age is (M=52,22) years, where the minimal age is (Min=36) years and the maximal (Max=64) years.

Table 9. Age Statistics

N	Valid	100
	Missing	1
Mean		52,22
Minimum		36
Maximum		64



Graph 3. Age statistics

Table 10 classifies the respondents of the survey according to their educational level. Data show that (N=9) respondents have finished only the primary school, (N=24) respondents have started but not finished the high school and (N=24) respondents have their high school diplomas.

The rest of respondents are included in the ones with 2 years of college (N=20), with university degree there are (N=30) respondents, (N=2) with a master degree and (N=2) respondents with doctoral degree.

Table 10. Educational level of respondents

		N	N %
Level of education	Finished primary school	9	9,18%
	Unfinished high school	10	10,20%
	Finished high school	24	24,49%
	2 years of college	20	20,41%
	University degree	30	30,61%
	Master degree	2	2,04%
	Doctoral degree	2	2,04%
	Other	1	1,02%

Another important variable of this survey is the years of work experience of respondents. The maximum work experience applied for measuring is above 36 years of work experience where we have (N=8) respondents. There are (N=24) respondents with a work experience from 31 to 35 years, (N=44) respondents with a work experience from 26 to 30 years and (N=24) respondents with 20 to 25 years of work experience.

This classification of respondents is done because of the nature of the problem treated in this survey where was necessary to realize a comparison between employee compensation during the communist regime and the one that governs today in Republic of Macedonia.

Table 11. Respondent's years of work experience

		Count	Column N %
P3	20-25 years	24	24,00%
	26-30 years	44	44,00%
	31-35 years	24	24,00%
	36 years and above	8	8,00%

7.2 Hypothesis

H1. There are important differences in the relationship of employees and managers in organizations before 90s and today

Based on the above stated hypothesis, where we analyze the same variable but in two different time periods, **Table 12** shows the mean achieved from the valuation of respondents done to the relationship they had with their managers in organizations they were engaged in during 90s and today. When comparing the means of two time periods we achieve the mean (M=3,51) for the relationship with managers for the time period before 90s and the mean (M=3,14) for the relationship with managers today.

Table 12. The mean for the relationship with managers before 90s and today

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	The relationship before 90s	3,51	101	,626	,062
	The relationship today	3,14	101	1,040	,103

Table 13. The average comparison

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	90s - today	,376	1,103	,110	,158	,594	3,427	100	,001

According to achieved averages from the valuation done by the respondents we can see that the value of the difference for the two time periods ($t=3,427$; $p<0.01$) is statistically significant, which on other hand shows that there was a difference in relationships between employees and their managers before 90s and today. The above stated hypothesis is accepted. Therefore, the null hypothesis is refused.

The result shows that the employees consider their relationship with managers before 90s far better than the relationship they have now.

H2. There are important differences in employee motivation before 90s and today

Based on the valuation done by the respondents regarding the employee motivation on the work place during 90s and today we have achieved the following mean ($M=3,30$) for the

period of time before 90s and (M=2,92) for the employee motivation today as shown in **Table 14**.

Table 14. The mean of employee motivation before 90s and today

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Before '90	3,30	99	,692	,070
	Today	2,92	99	1,085	,109

Table 15. The difference of averages related to employee motivation

		Paired Differences					t	df	Sig. (2-tailed)
			Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Before 90s – Today	,384	1,291	,130	,126	,641	2,958	98	,004

According to the difference value ($t=2,958$; $p<0.01$), the above stated hypothesis is verified, because there is a difference between the averages of employee motivation before 90s and today. According the results, the employee motivation was much higher during the communist regime than it is today.

H3. Before 90s and today there are differences in the way of compensating the employees for their work done

The analysis of the difference in employee compensation for their work done in organizations is represented in **Table 16 and 17**. By comparing the data for the same employees before 90s and today, from (N=66) employees that were receiving total compensation before 90s now

only (N=42) of them are receiving this form of compensation, while (N=5) of these workers now receive a performance based compensation. (N=13) employees receive total compensation and only (N=18) of them receive indirect compensation.

With a performance based compensation before 90s were compensated only (N=8) employees, while today with this form of compensation are compensated (N=10) employees.

Table 16. Employee compensation before 90s and today

		Today				Total
		Total Compensation	Performance based Compensation	Direct Compensation	Indirect Compensation	
Before 90s	Total Compensation	30	5	13	18	66
	Performance based Compensation	3	2	2	1	8
	Direct Compensation	4	2	8	1	15
	Indirect Compensation	5	1	1	4	11
Total		42	10	24	24	100

Direct compensation, which includes only the wage without any type of additional benefits was received from (N=15) employees before 90s, while today the same compensation is received from (N=24) employees. Before 90s with indirect compensation were compensated (N=11) employees, while today only (N=24) employees are compensated with indirect compensation.

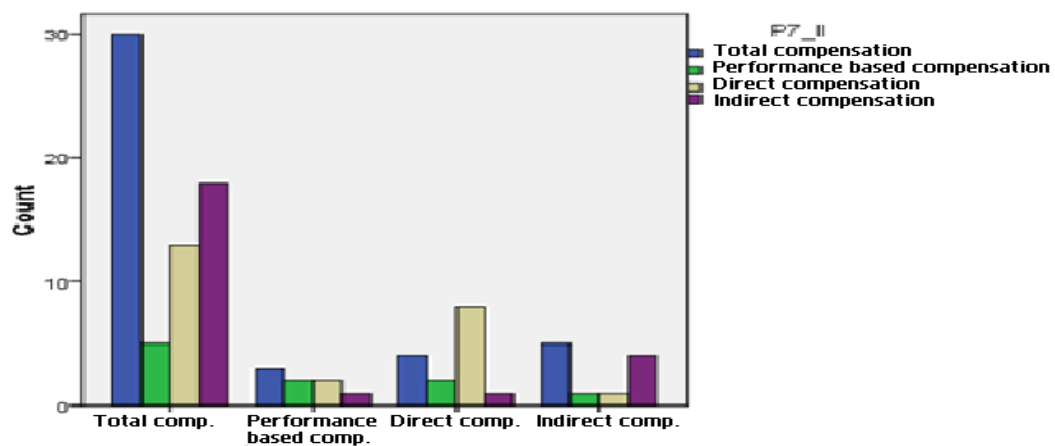
According to the values of chi square in Table 17 we can see that ($p>0.05$), which indicates that these data do not have any significance within the limits of reliability. This shows that our

hypothesis is rejected and proves the null hypothesis, which indicates that there is no significant difference between forms of compensation before 90s and at the present time.

Table 17. Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13,684 ^a	9	,134
Likelihood Ratio	12,988	9	,163
Linear-by-Linear Association	,076	1	,783
N of Valid Cases	100		

a. 11 cells (68.8%) have expected count less than 5. The minimum expected count is .80.



Graph 4. Types of compensation before 90s and today

H4. There are important differences in the wage structure before 90s and the present time

In the wage structure was usually included the basic salary and payment for food and transport, different bonuses and overtime payments. **Table 18** shows that at the present time (N=60) respondents receive only a basic salary for their work done, while (N=26) of respondents receive in addition to basic salary also payment for food and transport. If we compare these data with the ones before 90s we see a drastic change, as during that time only (N=17) of employees received only basic salary while (N=61) of them received in addition to basic salary also payment for food and transport. We have noted also lower figures for the bonuses and overtime payments at present time (N=3 and N=9), while in the years before 90s we have larger number of employees receiving bonuses and overtime payment (N=9 and N=11).

Table 18. Wage structure before 90s and today

		Today				Total
		Only basic salary	Basic salary and payments for food and transport	Basic salary and different bonuses	Basic salary and overtime payments	
Before 90s	Only basic salary	14	2	0	1	17
	Basic salary and payments for food and transport	37	17	3	4	61
	Basic salary and different bonuses	3	5	0	1	9
	Basic salary and overtime payments	6	2	0	3	11
Total		60	26	3	9	98

Table 19 shows that during the 90s the average is (M=2,14) which is much higher compared to the average of the present time (M=1,60). This difference between two averages (t=4,847; $p<0.01$) is significant and proves the hypothesis laid down (**Table 20**). The difference is in favor and supports the payment structure situation in organizations before the 90s.

Table 19. The average of wage structures before 90s and today

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Before 90s	2,14	98	,837	,085
	Today	1,60	98	,928	,094

Table 20. The difference between averages

		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Before 90s – Today	,541	1,105	,112	,319	,762	4,847	97	,000

H5. Compensation packages in organizations before 90s are different from the ones in the present times

Regarding the compensation packages, there is a comparison done between the ones applied before years 90s and the ones that are applied at the present time. (N=17) respondents have received packages with different bonuses before 90s, while at the present time only (N=7) of them receive bonuses. Also the data show that today very less of employees receive overtime payments (N=5) compared to (N=11) employees that received overtime payments before 90s.

We have a close proximity in the number of employees receiving the health and pension insurance package. In the past (N=57) of them received this package and today (N=50) employees receive it. However we have a large difference in the number of employees that do not receive any compensation package today (N=29) with the ones in the past (N=6).

Table 21. Compensation packages before 90s and today

		Today				Total
		Different bonuses	Overtime payments	Health and pension insurance	None of these packages	
Before 90s	Different bonuses	4	0	1	12	17
	Overtime payments	1	3	1	6	11
	Health and pension insurance	2	1	46	8	57
	None of these packages	0	1	2	3	6
Total		7	5	50	29	91

Table 22. Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	55,702 ^a	9	,000
Likelihood Ratio	56,106	9	,000
Linear-by-Linear Association	,159	1	,690
N of Valid Cases	91		

a. 11 cells (68,8%) have expected count less than 5. The minimum expected count is ,33.

According to chi square value in the **Table 22**, the data affirm and confirm the hypothesis put forward ($p < 0.01$).

H6. There is a difference in the delay of salary (pay) before 90s and nowadays

According to the data in the **Table 23 and 24** we can see that salary delays during years before 90s occurred very rarely or almost never with (N=43 and N=24) respondents. Nowadays the delays of salary occurs very often with (N=41) respondents, compared to years before 90s with only (N=4) respondents. These differences are significant ($p < 0.01$) and indicate that before 90s the delays of salary have occurred very rarely and today it happens very often (**Table 25**). The hypothesis is accepted.

Table 23. Delays of salary before 90s

	Observed N	Expected N	Residual
Very often	4	24,5	-20,5
Rarely	27	24,5	2,5
Very rarely	24	24,5	-,5
Never	43	24,5	18,5
Total	98		

Table 24. Delays of salary nowadays

	Observed N	Expected N	Residual
Very often	41	24,0	17,0
Rarely	28	24,0	4,0
Very rarely	18	24,0	-6,0
Never	9	24,0	-15,0
Total	96		

Table 25. Test Statistics

	Before 90s	Today
Chi-Square	31,388 ^a	23,583 ^b
Df	3	3
Asymp. Sig.	,000	,000

a. 0 cells (,0%) have expected frequencies less than 5. The minimum expected cell frequency is 24,5.

b. 0 cells (,0%) have expected frequencies less than 5. The minimum expected cell frequency is 24,0.

H7. There is a difference in employee satisfaction from the pay they receive from organizations where they actually work in

H8. Employees of private organizations are more satisfied with the compensation they receive compared to employees of public organizations

In **Table 26** we can see that (N=27) of respondents are not satisfied at all with their incomes, (N=16) of respondents are unsatisfied, (N=36) of respondents are moderately satisfied, (N=14) of them are satisfied and only (N=8) respondents are completely satisfied. According to the chi square value ($p < 0.01$) the hypothesis is verified (**Table 27**).

Table 26. Employee satisfaction from their incomes

	Observed N	Expected N	Residual
Not satisfied at all	27	20,2	6,8
Unsatisfied	16	20,2	-4,2
Moderately satisfied	36	20,2	15,8
Satisfied	14	20,2	-6,2
Completely satisfied	8	20,2	-12,2
Total	101		

Table 27. Test Statistics

	P14
Chi-Square	24,792 ^a
Df	4
Asymp. Sig.	,000

a. 0 cells (,0%) have expected frequencies less than 5. The minimum expected cell frequency is 20,2.

Table 28 shows the average of employee satisfaction of public organizations, which is (M=2,38) and the one of engaged in private organizations is (M=3,50). These data help us

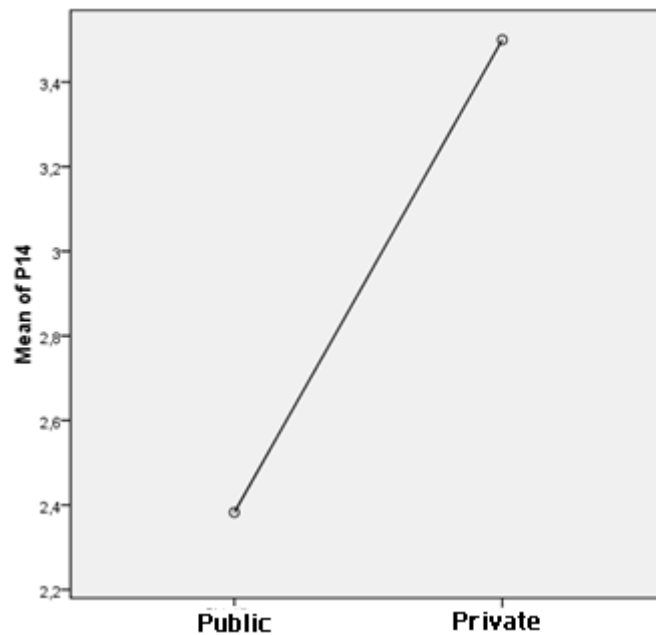
conclude that the employees of private organizations are more satisfied with their compensation than the employees of public organizations. According to the value of F coefficient in **Table 29** ($F=14,778$; $p<0.01$) our hypothesis is verified.

Table 28. The averages of employee satisfaction form compensations in public and private organizations

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Public	81	2,38	1,135	,126	2,13	2,63	1	5
Private	20	3,50	1,277	,286	2,90	4,10	1	5
Total	101	2,60	1,242	,124	2,36	2,85	1	5

Table 29. ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	20,023	1	20,023	14,778	,000
Within Groups	134,136	99	1,355		
Total	154,158	100			



Graph 5. Employee satisfaction according to the type of organization

H9. There are differences in level of savings from incomes before 90s and nowadays

According to data presented in **Table 30** we can see that before 90s a larger number of respondents have declared they could save money from the incomes they've received (N=43 and N=48), while at the present time only (N=9 and N=1) have declared they can save money from their incomes, which is quite small number compared to years before 90s.

At the present time (N=41) respondents declared they could not save at all from their incomes, while (N=27) of respondents declared they should borrow money to cover the monthly expenses. This number is very small for the years before 90s (N=1 and N=3).

Table 30. Level of savings before 90s and nowadays

		Today					Total
		Borrow money for covering the monthly expenses	Can't save at all	Spend also the saving	Can save very less	Save money for the future	
Before 90s	Borrow money for covering the monthly expenses	1	0	0	0	0	1
	Can't save at all	1	0	0	2	0	3
	Spend also the saving	0	2	0	1	0	3
	Can save very less	15	18	8	2	0	43
	Save money for the future	10	21	12	4	1	48
Total		27	41	20	9	1	98

In **Table 31** we can see that the average of savings is much higher before 90s ($M=4,37$) compared to the average of savings at the present time which is only ($M=2,14$). This difference is significant ($t=18,133$; $p<0.01$) and therefore we verify our hypothesis and refuse the null hypothesis (see **Table 32**).

Table 31. The average of savings before 90s and today

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Before 90s	4,37	98	,778	,079
	Today	2,14	98	,963	,097

Table 32. Paired Samples Test

		Paired Differences							
			Std. Deviation	Std. Error	95% Confidence Interval of the Difference		T	df	Sig. (2-tailed)
					Mean	Lower			
Pair 1	Before 90s and today	2,224	1,214	,123	1,981	2,468	18,133	97	,000

H10. There is a difference between rural and urban settlement workers in their satisfaction from their incomes from organizations they're engaged in

In the **Table 33** we can notice that the average of employee satisfaction that live in rural settlements is (M=2,75), while the average of satisfaction for employees of urban settlements is (M=2,12), which is bitt lower.

Table 33. The average of employee satisfaction between urban and rural settlements

	Settlement	N	Mean	Std. Deviation	Std. Error Mean
Satisfaction	Rural	59	2,75	1,281	,167
	Urban	32	2,12	1,008	,178

Table 34. The difference between averages

		Leven's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Satisfaction	Equal variances assumed	1,423	,236	2,370	89	,020	,621	,262	,100	1,141
	Equal variances not assumed			2,543	77,368	,013	,621	,244	,135	1,107

According to the value of the difference presented in the **Table 34**, ($t=2,370$; $p<0.05$), we can conclude there is a significant difference between the satisfaction averages of employees living in rural and urban settlements. Therefore or hypothesis is verified – the employees of rural settlements are more satisfied with their compensations than the ones of urban settlements.

7.3 Summary

After collecting all the necessary information from the questionnaires, I derived 10 hypothesis and tested them to prove whether they are valid or not. The results were quite surprising since they favored the period of time during the communist regime in the Republic of Macedonia.

The first hypothesis questioned the relationship between employees and managers during 90s and today and the result showed that the employees consider their relationship with managers before 90s far better than the relationship they have nowadays. Also, the employee motivation was much higher during the communist regime than it is today, which could result from our next conclusions achieved from the research. An important fact derived from the survey is that employees during 90s have received beside their basic salary more bonuses and overtime payments than they receive today. The results of research showed that bonuses and overtime payments at present time were received from only (N=3 and N=9) employees, while in the years before 90s we have (N=9 and N=11) employees receiving bonuses and overtime payment. We have a close proximity in the number of employees receiving the health and pension insurance package. In the past (N=57) of them received this package and today (N=50) employees receive it. However we have a large difference in the number of employees that do not receive any compensation package today (N=29) with the ones in the past (N=6).

Another factor that could have influenced on the motivation of employees is a delay in salary. In this point we have numbers that favor the period before 90s again. The research showed that nowadays the delays of salary occurs very often with (N=41) respondents, compared to years before 90s with only (N=4) respondents.

Another important fact derived from the research was the level of savings from incomes received during two different time periods. The results of the survey showed that at the

present time (N=41) respondents declared they could not save at all from their incomes, while (N=27) of respondents declared they should borrow money to cover the monthly expenses. This number is very small for the years before 90s (N=1 and N=3) and according to the persons interviewed back then a saving was much possible than it is at the present time.

8. Conclusion

The main purpose of this paper was to give insights on the importance and development of reward systems overall and with special focus on the economies in transition. What we tried to understand was how the transition process influenced on the development of employee reward systems.

As it was discussed earlier, economic transition can happen together with political and social transformation. In this economy transformation human resource management itself and reward systems played a significant role. In order to successfully overcome the transition to market driven economy many socialist countries introduced management theories and applied tools that were recognized and used in many developed countries and successful companies world-wide (Milikic and Janicijevic, 2009). However their success highly depended on their sources and capabilities within their borders.

Some of ex-socialist countries proved to be more successful when it comes to changes and developments in employee reward systems, like two of former Yugoslavian countries, Slovenia and Serbia, which similarly to Europe use the performance appraisal or also used as performance-related pay, and other are less successful, like the case of Macedonia. Macedonia proved to be significantly behind developed European countries when referring to performance appraisals and rewards. The individual performance less important, therefore the implementation of an objective performance appraisal system is very limited. This can be result of many problems that came with the bad-managed transition process in Macedonia. Therefore the unique solution remains in overcoming the problems of the labour market and afterwards creating space and conditions to implement a human resource management system, including compensation system, compared to those of developed European countries.

Abstract

The main purpose of this paper is to give insights on the importance and development of reward systems overall and with special focus on the economies in transition. What we tried to understand is how the transition process influenced on the development of employee reward systems, with a closer view on the case of Macedonia.

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Education

- Oct 2008-recent **University of Vienna**, Master of Business Administration (*Vienna, Austria*)
- Master thesis “*Problems and Issues in Transforming Employee Reward Systems – The Case of Macedonia*”,
Mentor: Univ-Prof. Dr. Oliver Fabel- Head of Chair for International Personnel Management, University of Vienna
- Curriculum:* High-Profile Employees, Spin Offs and Entrepreneurship; International Human Resource Management; Labor Economics; Principles of Finances and Valuation.
- Oct 2003-Jul 2007 **South-East European University**, the BA/Specialist degree in Finances, major in Business Administration Studies (*Tetovo, Macedonia*)
- (*Graduated with honors – with a Grade Point Average of 9, 77*)
- Curriculum:* Foundations and Principles of Accounting; Financial Analysis; Corporate Finances; Business Mathematics; Statistics; Strategic and Small Business Management; Marketing Strategy; Project Management.

Work Experience

- Aug 2012-recent **Head of International Relations Office** at State University of Tetova, (*Tetovo, Macedonia*)
- Planning and coordinating international activities of SUT and looking for opportunities for the growth and promotion of the university, responsible for fostering collaboration with other educational institutions and universities from the region and beyond.
- Sep 2011- recent **Teaching Assistant** at State University of Tetova –Faculty of Economics, (*Tetovo, Macedonia*)
- Curriculum:* Human Resource Management, Marketing, Market Research, Marketing in Tourism.
- Nov 2010 – Jan 2011 **Internship**, UNDP – United Nations Development Program – Bratislava Regional Centre (*Bratislava, Slovakia*)
- Monitoring of macroeconomic trends in SEE economies, developing national data bases of macroeconomic and socio-economic data for SEE economies,

helping to update the paper : **Macro, social impact of the crisis in SEE**, by my mentor Ben Slay – Senior Economists.

Dec 2006 - Jan2007 **Intern**, Stopanska Banka AD Skopje (*Tetovo, Macedonia*)

Preparing online transfer slips for the customers; informed the customers about their account balance, account status and other queries available; communicated with the potential clients about the terms and conditions on which bank accepts an application for credit; observed the work of Customer Care Department, while dealing with different customers complaints.

Nov 2005 – Jun 2007 **Vice-President**, Management Club of SEE University (*Tetovo, Macedonia*)

Disposing training courses in math, accounting, and constitutional law in order to provide help to disadvantaged students; organizing student-professor debates in the ongoing economic, political and social developments of the country; arranging field trips in European countries and maintaining a comprehensive support database for students concerning their future careers and goals; arranging cultural and sports activities for students

Oct 1994 – Jun 2002 **Volunteer**, Red Cross (*Tetovo, Macedonia*)

Assisting refugees from Kosovo in 1999 and observing the situation in the conflict zones of Macedonia and Kosovo; attending several youth seminars and programs organized by the Red Cross Organization for blood-donation events, HIV/ AIDS and informing people about other upcoming events.

Personal Skills and Attributes

Excellent problem-solving skills
Excellent analytical skills
Very good intercultural communication skills
Reliable, accurate, energetic
Responsible and optimistic

Language Skills

Albanian - Native
English - Excellent
Macedonian – Excellent
Croatian - Excellent
German – Very good
Spanish – Elementary

Other Qualifications and Skills

Proficient with internet explorer and Microsoft Office applications

Hobbies

Traveling, Reading, Sports, Dance