MANAGERIAL CHALLENGES OF THE CONTEMPORARY SOCIETY

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ABSTRACT
The aim of this paper was to explore the level of the usage of variable pay and some non financial benefits as parts of the compensation system. Objectives were to find out the levels of the usage of different elements in compensation packages for workers in Serbia and several countries of Central Eastern Europe (CEE). The methodological approach used in this paper included the theoretical analysis of compensation system, as well as comparative analysis of data based on CRANET research. Our findings show that in workers’ variable compensation package financial participation is used less than performance related pay. Companies in Serbia, a developing post-communist country, in order to motivate workers, use several elements of performance based pay. In case of several benefits in excess of statutory requirements, companies from Serbia and CEE mostly use parental leave, education break and pension schemes.

KEY WORDS
Compensations, variable pay, benefits, human resource management, Cranet, Serbia, Central Eastern Europe.

JEL CLASSIFICATION
M12, M52, J32, J33

1. Introduction
Compensation in HRM is increasingly seen as a mechanism to develop and reinforce global corporate culture, a primary source of corporate control, explicitly linking performance outcomes with the associated costs and the nexus of increasingly strident, sophisticated and public discourse on central issues of corporate governance in an international context (Dowling et al., 2008). There are also other extended ways of giving benefits, work autonomy, opportunity for professional development, security or recognition (Bonache & Fernández, 1997) quality of working life, etc. Štangl Šušnjar & Slavić (2012) stated that knowledge of differences in national systems of compensation is necessary for the successful management of international human resources. Knowledge of good practice in compensation strategy will help HR managers in construction of nationally acceptable, efficient system of compensation, which contributes to the increased employee satisfaction and success of the company.

This paper gives an analytical overview of basic terms and attitudes on compensations in international human resource management (IHIRM), as well as the comparative overview of the compensation system in the countries of Central Eastern Europe that participated in CRANET research, from 2008 to 2010. Our objectives were to find out the extent of the usage of different elements in compensation packages for workers. The methodological approach used in this paper included the theoretical analysis of the major components that should be included in this system and comparative analysis based on CRANET research. The crosstabs technique was used to explore subject of the research.

2. Theoretical Background
Compensations in contemporary human resources management represent one of the most mentioned elements of this system, from the aspect of scientific research and company's practice (Harvey, 1993a, Reynolds, 1997; Lowe et al. 2002; Gomez-Mejía et al., 2010). The term reward (compensation) refers to remuneration, pay, and/or incentives used to motivate employees (Adnan et al., 2011). Besides, compensations are direct financial costs for the organization. Labor costs may represent a great amount of total operating costs (Štangl Šušnjar & Leković, 2009).

In an effort to maximize work force effectiveness, compensation must move to the preferred approach that should first identify pay and benefit practices that are desired by employees in the respective nations and cultures. Once employees’ needs and desires are appropriately identified, the mechanics of selectively adopting existing programs to a variety of operations might be addressed and the need to develop new programs identified (Lowe et al., 2002, p. 46).

Optimal compensation system is the result of strategic, personnel, financial and many other factors as Briscoe et al. have stated in their research (2009). Brewster et al. (2007) emphasized that compensations for employees surpass salary and money-related benefits, and move towards different elements such as work autonomy, training and development possibilities, work quality improvements, as well as many other facts connected to...
the culture of the organization itself. Besides, researches about compensations (Štangl Šušnjar & Leković, 2009, Poor et al., 2012) showed that labour costs may represent even about 60% of total costs, referring to the need of accepting new, strategic view on compensation system, which will guarantee that investments in compensations will result in the value added.

Basic components of compensation package can be structured from many different elements. Some of its elements are present everywhere, disregarding activities and the economic system of the country, and they are the fixed or basic pay elements and the indirect pay forms. The direct pay forms are based on the class or group of jobs, and they are determined by job analysis, but they can include the elements of seniority, too. They can also contain the employees’ qualifications or their competences. The indirect pay forms include a broad spectre of benefits, but also privileges provided to a special category of employees – managers. One more category is possible, the non-financial one, which provides loyalty of an employee to the organization according to different bases, such as paying tribute, job security, business challenge, and possibility to learn (Štangl Šušnjar & Leković, 2009). Similar view on key elements is given by authors Briscoe, Shuler and Claus. According to them (2009), apart from the basic salary, the compensation package includes global benefits such as shorter work time, vacations and holidays, pensions, insurance (life, social, health, etc.), maternity leave, conscription, etc, flexible benefits and equity compensations – employee stock ownership plan, employee stock purchase plan, stock appreciation rights, stock options, phantom stocks (Briscoe et al., 2009, p. 251; Festing & Sahakiants, 2011, p. 346).

For this paper very interesting were the indirect pay forms such as incentives in term of financial participation and variable performance based pay and benefits that are in excess of statutory requirements.

3. Methodology

A comparative analysis of workers’ compensations is made based on the worldwide data of the Cranet international network of business schools. This international organization under the patronate of the Cranfield School of Management organizes comparative researches on the policies and practices of human resource management, using a standardized questionnaire. The questionnaire is divided into six sections. Especially interesting section for this research was Section IV: Compensations and benefits containing questions about the level of basic pay and bonus schemes, as well as on schemes in excess of statutory requirements. Respondents were asked to mark whether they use or not several elements of financial participation and performance related pay. The questionnaire contained closed questions and respondents were asked to make their choice from sets of alternative, pre-formulated answers largely covering the specific areas of HRM. The research data were processed using SPSS software version 17. and MS Office EXCEL programme. In Serbia, the questionnaires are filled out by the HRM executives of companies with more than 50 employees.

The objectives of this paper were to:

- Find out the level of usage of different variable elements of pay in compensation packages for workers in Serbia and countries of CEE
- Find out the level of usage of different nonmaterial benefits in Serbia and CEE.

CRANET methodology and data were also used in researches of HRM practice and often discussed in scientific papers worldwide (Berber, 2013, Gurkov et al., 2012; Steinmetz et al., 2011; Goodehar & Nordhaug, 2011; Karoliny et al., 2009; Lazarova et al., 2008; Dolan et al., 2005, Mayrhofer & Brewster, 2005).

Our hypotheses were:

**H0**: Companies from the CEE and Serbia use performance related pay more than financial participation in rewarding their workers.

**H1**: Companies from the CEE mostly use bonuses based on individual goals for workers when reward them.

**H2**: Companies from Serbia mostly use performance related pay when reward employees.

**H3**: Companies from Serbia and CEE mostly use parental leave, education break and pension schemes.

3.1. Sample

In this paper authors used data from CEE countries and Serbia to make deeper analysis. For this research authors used a sample of 7 countries from Central Eastern Europe where majority of companies in the competitive sector have largely completed those major legal, strategic and structural modifications that followed privatization. They have essentially completed the reorientation of firm functions and set up competitive business models and HR systems to support these various models. With the intensification of competition continuous renewal is now being emphasized. In this situation, the role of human resources becomes particularly important in both the private and public sector of these countries (Poór et al., 2012).

<table>
<thead>
<tr>
<th>Country</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>267</td>
<td>26.0</td>
<td>26.0</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>54</td>
<td>5.3</td>
<td>31.2</td>
</tr>
<tr>
<td>Estonia</td>
<td>74</td>
<td>7.2</td>
<td>38.4</td>
</tr>
<tr>
<td>Hungary</td>
<td>139</td>
<td>13.5</td>
<td>51.9</td>
</tr>
<tr>
<td>Slovakia</td>
<td>225</td>
<td>21.9</td>
<td>73.8</td>
</tr>
<tr>
<td>Slovenia</td>
<td>219</td>
<td>21.3</td>
<td>95.1</td>
</tr>
<tr>
<td>Serbia</td>
<td>50</td>
<td>4.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>1026</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ research

<table>
<thead>
<tr>
<th>Table 2: Number of employees in organizations in the research</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
</tr>
<tr>
<td>---------</td>
</tr>
<tr>
<td>Bulgaria</td>
</tr>
<tr>
<td>Czech Republic</td>
</tr>
<tr>
<td>Estonia</td>
</tr>
<tr>
<td>Hungary</td>
</tr>
<tr>
<td>Slovakia</td>
</tr>
<tr>
<td>Slovenia</td>
</tr>
<tr>
<td>Serbia</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
In Serbia this research was done by end of 2008, in 50 companies from the whole country, with 17,064 employees at all. Companies with private ownership make 69.6% of the total sample. Public – state ownership was present in 23.9%, mixed ownership in 2.2%, while other types were 4.3% of examined companies. The most of respondents belong to the manufacturing sector (26%). Of the total number of employees 5.3% were managers, 42.8% professionals, 15.9% administrative, and 33.2% were manual workers. Since the professional workers took the largest percentage in total sample, we decided to explore variable compensations for this category of employees.

3. Results and Discussion

Table 3 presents an overview of the usage of financial participation and performance related pay by organizations in country. In general, we can conclude that financial participation (employee share schemes are used in 11.7% of organizations, profit sharing 12.5% and stock options 4.7%) is used less than performance related pay (flexible benefits are used in 36.2% of cases, performance related pay 58.8%, bonus based on individual goals 58.8% and bonus based on team goals in 41.2%). Within the category of financial participation for professionals, profit sharing is more common than share schemes or stock option schemes. In the category of variable pay based on the performance, individual bonuses are more common than bonuses based on team goals. It appears that flexible benefits show higher variance among countries than the other schemes, and it is used in 36.2% of companies.

<table>
<thead>
<tr>
<th>Country</th>
<th>Total number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>80448</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>41288</td>
</tr>
<tr>
<td>Estonia</td>
<td>19665</td>
</tr>
<tr>
<td>Hungary</td>
<td>59844</td>
</tr>
<tr>
<td>Slovakia</td>
<td>175978</td>
</tr>
<tr>
<td>Slovenia</td>
<td>122555</td>
</tr>
<tr>
<td>Serbia</td>
<td>17064</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>516842</strong></td>
</tr>
</tbody>
</table>

Source: Authors’ research

There is a considerable diversity in the use of financial participation schemes among countries of CEE, too. Higher usage of share plans is found only in Slovakia, 20.4% and Hungary, 11.5%. Countries where companies use share schemes less than 10% are Estonia, Bulgaria, Czech Republic, Serbia and Slovenia. In the case of Serbia, it is obvious that this country is in group where this kind of financial participation is used less than 10%. For Serbia, this percentage is 9.7%, which is very close to other countries of CEE region and it is higher than in some developer countries such as Czech Republic.

Profit sharing for professional is not very common in CEE region. It is interesting that in Slovakia, for example, which have the highest level of the usage of share schemes, profit sharing is used at the lowest level of all countries, only 7.6%. For this kind of compensation organizations in CEE region have smaller variance, and the average usage is around 12.5%. Only Slovenia has higher level of the usage of this element of compensation, 19.2%, while other CEE countries have usage between 12% and 13%. Serbian companies use this kind of variable pay in 12.9%, which is in line with mentioned CEE countries.

High level of use of stock options is found only in Serbia, 16%. In all other countries this kind of compensation is not used at great extent, the average usage is 4.7% of companies. These trends can be explained maybe by the fact that ownership is highly valued, and shareholders want to keep control over the enterprise and its resources; so they reward professionals by profit sharing instead of stock share or options. The smallest usage is in Slovakia, Czech Republic and Hungary, below 5% of companies. For Serbia we can conclude that this percentage of the companies that use stock options is related to the current trend of the privatisation and entering of foreign capital.

In the Cranet survey of 2003/5 Slovenia and Slovakia had higher scores in the use of performance related pay than in some well developed economies. The argument then it was that these post-communist states offered ample opportunities for organizations to model the employment relationship to performance oriented arrangements (CRANET, 2011). The most significant use of flexible benefits for professionals is in Hungary, Estonia and Slovenia (between 48% and 59% of companies). But less than 20% of companies use this kind of performance related pay in Serbia and Slovakia. In Serbia flexible benefits are used in almost 16% of the companies. These benefits are new for most of the companies, so the usage varies between countries in CEE region.
Pay for performance is often used among countries in CEE region. In Estonia, Slovenia and Serbia the usage of this element of performance related pay is in over 70% of companies. Between 50% and 70% of companies use performance related pay in Bulgaria and Slovakia, while companies in Czech Republic and Hungary use this variable pay in 35% and 45% of cases.

Bonuses based on the achievements of individual’s goals for professional workers are increasing in importance. The significant use of bonuses based on individual’s goals is in each country of CEE (over 45%). Especially interesting are Estonia and Slovenia where the percentage of companies that use individual bonuses is over 70%. Serbia has the 46.9% of companies that use individual related bonuses for professionals. This, beside high use of performance related pay, is interesting data since Serbia is in group of post-communist countries, which are trying to make performance oriented arrangements for employees. The usage of bonuses based on team goals for professionals is smaller than the above mentioned bonuses, and the average percentage is 41.2. The biggest usage is in Slovenia and Estonia, over 45%. These two countries have the largest percentage for bonuses, team and individual. All other countries are in the line with the average percentage. Serbian companies use this variable pay in 37.5%.

On the basis of mentioned percentages it can be concluded that Serbian companies are trying to create similar compensation systems such are those in developed countries – which is reasonable since contemporary companies are market oriented and their business is largely influenced by foreign enterprises (many companies from Serbia that participated in survey are foreign subsidiaries of large MNCs).

### Table 4: Schemes in excess of statutory requirements in CEE countries

<table>
<thead>
<tr>
<th>Scheme Type</th>
<th>Workplace childcare</th>
<th>Childcare allowances</th>
<th>Career break schemes</th>
<th>Maternity leave</th>
<th>Paternity leave</th>
<th>Parental leave</th>
<th>Pension schemes</th>
<th>Education/ training break</th>
<th>Private health care schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>0.9</td>
<td>19.8</td>
<td>3.8</td>
<td>51.3</td>
<td>17.7</td>
<td>23.5</td>
<td>21.8</td>
<td>43.5</td>
<td>18.8</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>0.0</td>
<td>0.0</td>
<td>15.0</td>
<td>22.5</td>
<td>0.0</td>
<td>20.5</td>
<td>57.4</td>
<td>56.9</td>
<td>11.6</td>
</tr>
<tr>
<td>Estonia</td>
<td>2.9</td>
<td>4.3</td>
<td>33.8</td>
<td>32.4</td>
<td>32.4</td>
<td>31.8</td>
<td>6.1</td>
<td>55.7</td>
<td>30.9</td>
</tr>
<tr>
<td>Hungary</td>
<td>2.9</td>
<td>15.4</td>
<td>9.6</td>
<td>22.6</td>
<td>23.0</td>
<td>25.0</td>
<td>44.1</td>
<td>60.6</td>
<td>29.2</td>
</tr>
<tr>
<td>Slovakia</td>
<td>3.2</td>
<td>18.9</td>
<td>9.5</td>
<td>31.2</td>
<td>23.4</td>
<td>33.5</td>
<td>39.6</td>
<td>29.3</td>
<td>31.2</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1.0</td>
<td>2.5</td>
<td>1.6</td>
<td>75.6</td>
<td>76.8</td>
<td>74.5</td>
<td>56.7</td>
<td>58.4</td>
<td>12.4</td>
</tr>
<tr>
<td>Serbia</td>
<td>0.0</td>
<td>0.0</td>
<td>62.8</td>
<td>77.8</td>
<td>57.1</td>
<td>67.4</td>
<td>56.4</td>
<td>72.1</td>
<td>10.3</td>
</tr>
<tr>
<td>Total</td>
<td>1.9</td>
<td>12.4</td>
<td>11.1</td>
<td>46.6</td>
<td>36.8</td>
<td>39.9</td>
<td>38.9</td>
<td>48.7</td>
<td>22.2</td>
</tr>
</tbody>
</table>

Source: Authors' research

From table 4 it can be seen the usage of schemes in excess of statutory requirements in CEE countries. Here answers in questionnaire were given without categorisation on managers, professionals, clerical and manual workers.

We can see that the largest usage of these schemes is related to the training and education break (48.7%) and maternity leave (46.6%). Most of the companies in CEE allow their employees to make break for education or specific training needed for their carriers and company’s needs. On the other hand, maternity leave is the most common benefit in almost all countries. The largest usage of these benefits is in Serbia and Slovenia, which made transition process after many other post-communist countries. The smallest usage is in Czech Republic and Hungary (below 25% of companies). In case of training and education break there is smaller variance in the usage, average is 48.7% and only Slovakia has very low level of the usage (only 29% of companies).

In case of paternity leave and parental leave, most CEE countries use these benefits between 35% and 40%. The biggest usage is in Slovenia and Serbia, while in Hungary, Bulgaria and Czech Republic companies use this kind of benefit to reward their employees in smaller percentage (in Czech Republic there is no company that use paternity leave). Pension schemes and private health care schemes are used in some smaller percentages, 22% and 40% of companies. The biggest usage of pension schemes is in Czech Republic, Slovenia and Serbia. In Estonia this percentage is very low, only 6% of companies use it. In case of private health schemes the situation is something different. Hungary, Slovakia and Estonia use this benefit in 30% of companies, while in Czech Republic, Slovenia and Serbia this percentage is near 10. For Serbia it is interesting to mention that pension schemes are usually included in basic working contract, in accordance with the Labour Law. This can be explanation of that very high percent of companies that use this kind of benefits.

The smallest usage of benefits that are in excess of statutory requirements is for workplace childcare (near 2%), childcare allowance (12.4%) and career break schemes (11%). The smallest variety is in the usage of workplace childcare, where the percentage of the usage is between 0, in Czech Republic and Serbia, and 3%, in Hungary, Estonia and Slovakia. In case of childcare allowance, the variety is higher, since Czech Republic and Serbia do not use these kind of benefit at all, while Bulgaria, Slovakia and Hungary use it in around 18% of companies. The last benefit is career break scheme. In case of Serbia it is very interesting to see the percentage...
of almost 63% of companies, and in case of Estonia is 34%. All other countries use this benefit around 10%.

4. Conclusions

Compensations, as very complex mechanism that is related to the workers’ performances and their satisfaction, have been analyzed throughout theoretical and empirical researches in the past and in the contemporary HRM. Based on several literature researches around the world, EU, CEE region, and Serbia, and empirical data from CRANET project, authors of this paper made several conclusions.

First, performance related pay is used more than financial participation in case of professionals’ rewards in companies from CEE region. Hypothesis H0 has been confirmed. Second, these data also confirm the first hypothesis (H1) since bonuses based on individual goals are used mostly for professionals’ rewards. Third, companies from Serbia mostly use performance related pay to reward employees which confirms second hypothesis (H2). Fourth, companies from Serbia and CEE mostly use parental leave (maternity leave), education break and pension schemes in case of benefits in excess of statutory requirements (H3).

Besides these general trends, it is also interesting to mention some other conclusion related to the Serbian sample regarding variable pay and some other benefits.

Serbia is in the group of countries where financial participation in term of share schemes is used less than 10%. For Serbia, this percentage is low, 9.7%, but it is higher than in some developed countries of CEE region. In relation to profit sharing, 12.9% of Serbian companies use this kind of variable pay, which is in line with several countries of CEE such as Bulgaria, Czech Republic and Hungary. In Serbia stock options are used in 16% of companies. This is the biggest variance in financial participation, since the average percentage is near 5%.

In relation to performance related pay, about 77% of Serbian companies use rewards regarding the performance of professionals, which is a very surprising level, since Serbia is country where the most pay in most companies is still related to the time spent on the job - number of working hours and seniority (Svetlik et al., 2010). Bonuses based on the achievements of individual and teams goals are increasing in importance. They are in the initial phase of implementation, since Serbia, as post-communist country, is trying to make performance oriented arrangements for managers. In the case of flexible benefits, they are used in almost 76% of examined Serbian companies, which is low in comparison with some other CEE countries like Czech Republic, Estonia, Slovenia and Hungary. Serbia has more companies that use individual based bonuses 47% of companies in comparison to the team based bonuses (37.5%). In this case, Serbian companies are in the line with the trend of CEE region.

When the schemes in excess of statutory requirements are in the question, Serbian companies are in the line with CEE region, since the maternity leave, training and education break and pension schemes are mostly used in the case of rewarding professional workers. Serbian percentage is higher than the average of CEE region, especially in maternity leave and pension schemes. This can be explained in the light of relatively strong labour law, as Štangl Šušnjar and Leković (2009) stated in their research where they emphasised that according some elements of benefit package, conditions in Serbia are more favourable in comparisons with some countries of West Europe and the US practice (maternity leave, annual vacation, employment insurance; even in case when the employee is responsible for his/her dismissal, and so on). Low economic standard reduced payments to the minimal income and pension benefits, disability insurance and employment insurance which cannot be avoided, according Low.

Generally, it can be conclude that Serbian compensation system has some similarity with the compensation system of CEE region, but that there are still some differences which are caused by differences in the economic, political and social development. Namely, Serbia was the last country that entered the privatisation process, with very high rate of unemployment and inflation, and relatively low level of economic growth (according empirical data from Poor et al., 2012). Also, social-political regime’s changes after 2000 influenced changes in the area of business, but there are still a lot of problems, especially in relation to the organization and management of state and public companies that are badly privatised or are still in the ownership of the state.

Of course, today FDIs have many positive effects on Serbian economy (joint ventures, Greenfield, etc.). Foreign investors beside technology of production usually introduce totally new business concept especially in area of organization and management knowledge, and of course, in human resource management.

References


