



**THE DEVELOPMENT OF COMPENSATION SYSTEM
IN SERBIA: A COMPARISON OF TWO SUCCESSIVE
CRANET RESEARCH ROUNDS***

Nemanja Berber

University of Novi Sad, Faculty of Economics in Subotica, Republic of Serbia

✉ berber@ef.uns.ac.rs

Agneš Slavić

University of Novi Sad, Faculty of Economics in Subotica, Republic of Serbia

✉ slavica@ef.uns.ac.rs

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Abstract: The aim of this paper is to explore the development of the compensation practice in the context of human resource management (HRM) in Serbia. The objectives are to detect the extent of the usage of different elements in the compensation packages, the level of negotiation during the determination of the basic pay, the responsibility for decision making process regarding basic pay, the extent of the usage of different types of benefits, and to explore the differences between these data in the two research periods, 2008-2010 and 2014-2016. The methodology in this paper includes the theoretical analysis of the compensation systems, as well as the comparative analysis of the data on compensation in Serbia based on the Cranet research. The sample of the study consisted of 210 organisations from Serbia, 50 organisations in the 2008-2010 period and 160 organisations in the 2014-2016 period. This paper brings new insights to the development of comparative compensation management since it points to the development/changes of the compensation practice (in years) in Serbian HRM.

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1. Introduction

Compensation in HRM gains special attention as one of the most important functions that play a key role in attracting best available employees, retaining the most successful workers, and motivate all employees to achieve higher levels of performances. Usually, compensation system is contained from basic wage, incentive pay, and benefits and nowadays flexible benefits are used more and more. The data and researches on HR compensation in comparative context can be useful for researchers and managers since it can help HR managers to develop an efficient system of compensation, in terms of increased employee satisfaction and productivity, while helping academics with a rich theoretical database for further development and enhancement of researches in this area. Since 2008 there has been a lack of empirical researches on compensation in Serbia. With the entrance of Serbia into the Cranet project, this trend has been changed, and now there are possibilities to explore empirical data in almost each HR practice.

The aim of this paper is to explore the development of the compensation practice in the context of HRM in Serbia. The objectives are to detect the extent of the usage of different elements in the compensation packages, the level of negotiation during the determination of the basic pay, the responsibility for decision making process regarding basic pay, the extent of the usage of different types of benefits, and to explore the differences between these data in the two research periods, 2008-2010 and 2014-2016. The methodology in this paper includes the theoretical analysis of the compensation systems and the Cranet project, as well as the comparative analysis of the data on compensation in Serbia based on the Cranet research. The sample of the study consisted of 210 organisations from Serbia, 50 organisations in the 2008-2010 period and 160 organisations in the 2014-2016 period. This paper brings new insights to the development of comparative compensation management since it points to the development/changes of the compensation practice (in years) in Serbian HRM.

The paper consists of three main parts. In the first part, the authors present leading theoretical thoughts and issues on employee compensation and its importance for contemporary organisations. Methodology and description of the Cranet project are presented in the second part of the paper. At the end, the authors present the research results and discuss several implications of the paper for managerial practice.

2. Theoretical background

Rewarding people is one of the most important HR activities. It has a specific role in attracting, motivating, and retaining employees in organisations (Stone & Deadrick, 2015; Williams et al., 2007; Rynes et al., 2004; Fay & Thompson, 2001). Implementing an attractive compensation strategy, relative to competitors, is often

presented as an important investment into the HR system and considered as a signal of the organisational approach to human capital accumulation and retention (Way et al., 2010). Also, compensation strategies impact other HR areas such as recruitment, selection, performance management, training, career development and industrial relations (Martocchio 2009; Pfeffer, 1998) and must take account of the varying needs of a range of stakeholders.

Employees' compensation consists of basic salary with various additions in the form of incentives, designed at individual, group or organisational level, as well as benefits related to tangible and intangible elements for employees (Štangel Šušnjar & Slavić, 2012, p. 32). Among these, the incentive pay as a variable part of total compensation is specifically important since it is related to the performance of employees. Incentives are used to motivate employees to engage themselves in achieving their goals and work tasks. This part of the total compensation is variable because it varies in relation to the objectives and standards - organisational, group or individual goals. This way of rewarding emphasises the importance of the connection between employees' efforts and performance, on the one hand, and rewards, on the other (Slavić & Berber, 2016, p. 328). On the other side, benefits, as an indirect component of the compensation system represent rewards that are given above the basic pay and incentive pay. The aim of benefits is to retain employees in the company, meet their needs and increase the loyalty of employees. Benefits are not used to motivate employees because their height does not depend on the performance of employees; they are more related to the overall satisfaction and loyalty. Employee benefits protect employees from risks that could jeopardise their health and financial security, provide coverage for sickness, injury, unemployment, old age, death, and other services (Gomez-Mejia et al., 2012, p. 399).

For the purpose of this paper, the authors decide to explore the compensation systems in Serbian organisations. Therefore, the next part of the text is dedicated to the presentation of the main patterns of compensation management in Serbia.

2.1. Compensation system in Serbian HRM

Prior to the '90s, Serbia, as a part of the Central and Eastern Europe, shared similar compensation systems which were characterised by three major features: centrally planned wages, significant variable payments, and a wide variety of benefits (Festing & Sahakiants, 2013). In the case of managerial pay, cash bonuses were the predominant approach to variable pay, which was typically person-based, rather than performance-based (Morley et al., 2016). Also, the pay increase was based on seniority and basic pay and benefits were determined in the process of collective bargaining. Some of the main characteristics of the compensation system in organisations that operate in Serbia were:

- The government defined the minimum wage.

- The compensation system usually consisted of the following elements: basic pay, bonuses, premium and overtime pay, legally required benefits.
- Most organisations used traditional pay calculation systems, such as seniority, hourly wage, and pay grades.
- The low economic standard reduced payments to the minimal income while pension benefits, disability insurance, and unemployment insurance could not be avoided (Berber et al., 2015; Štangl-Šušnjar & Slavić, 2012).

In contrast, contemporary compensation system in Serbia is quite different today. After the process of radical changes and transformation of the economic and political system, with the privatisation of state and public organisations, the entrance of foreign companies and orientation to the market economy, organisations which operate in Serbia were faced with totally new and different business models. New management knowledge and practices were also introduced, where HRM took special place since it was different from personnel management in the form of the administrative office for human and material resources (Kohont et al., 2015) which had been predominant in Serbia before 2000.

The adjusted HR practices were applied in organisations since legacy from the previous period (for example strong role of the state and laws in the area of employment and work) and specific national culture required adjustment of Western management practices. Rewarding people based on performances, competencies, and contribution, rather than just on title or vocation, without the strong influence of trade unions and collective bargaining in private sector organisation, represent contemporary compensation policy in Serbia. While these changes are already implemented in private sector organisations, some of the former policies and practices are still present in the public sector. In organisations in this sector seniority is still very important element for the pay increase, collective bargaining has a stronger influence than in the private sector, and most of the compensation issues are regulated by national laws. Most of the modern incentive compensation techniques have not introduced yet and pay grades are used to a large extent. Changes in these organisations could happen in the future since the public sector is under strong pressure for reforms now.

Based on the above mentioned, we decided to explore the changes in compensation system in the domestic economy, in order to present a contemporary compensation pattern.

3. Methodology

In this research, the authors used the methodology of the CRANET research. Cranet is a network of scientific institutions from different countries that collect unique and mutually comparable data on the policies and practices of HRM. This network, which was founded in 1989, conducts the largest survey of HRM practice around the world and has a current picture of the state of the practice in the

Member States. Coordination of activities is carried out by Centre of European HRM in Cranfield School of Management in the UK. Currently, the organisation has about 40 members worldwide (Slavić & Berber, 2016a).

The Faculty of Economics in Subotica conducted this research in Serbia for the second time. As the only member of the international scientific network in this country, the Faculty of Economics in 2008 participated in the Cranet project for the first time with 50 analysed organisations. In 2015, the authors examined 160 organisations from the territory of Serbia. The answers to the questionnaire were given by HR managers or executives in the organisations with more than 50 employees (Leković et al., 2015). The questionnaire was divided into six sections: HRM activities in an organisation, staffing, employee training and development, compensation and benefits, industrial relations and communication, and organisational details (Parry et al., 2013). In the continuation of this section, we present our sample and methods used in the analysis.

Table 1. Structure of the sample according to the size of organisation in Serbia in two research periods (%)

Size of organisation	2008		2015	
	Frequency	Percent	Frequency	Percent
1-249	29	58.0	96	60.0
250-1000	17	34.0	43	26.9
1000+	4	8.0	21	13.1
Total	50	100.0	160	100.0

Source: Authors' analysis based on Cranet research data

According to the data from Table 2, the largest share of the sample in Serbia in 2015 had the SME sector, 60%, like in the 2008 sample. There are 27% of large organisations and 13% of very large, with more than 1000 employees. In 2008, there were 34% of large organisations and only 8% of very large, with more than 1000 employees. The sample of the research of 2015 consisted mainly from organisations from the private (66%) sector, like in 2008, and 34% from the public sector. In 2015 about 37% of analysed organisations were from production sector, and 63% of organisations are from the service sector, while in 2008 the Serbian sample consisted of 60% organisations from production and 40% from the service sector. In both research periods, the majority of analysed organisations are from food production, trade, telecommunication, and IT (Leković et al., 2015).

The analysis of the data was processed by SPSS software version 21. The authors used descriptive statistics and Spearman's Chi Square test to present the practice of compensation management in Serbia in two successive research periods. We used data to explore compensation management for professional workers, excluding managers, clericals, and manual workers.

4. Results

The primary responsibility for the major policy decisions on pay and benefits relates to the decision-making process in the area of compensation. In some countries, line managers bring decisions on compensation, while in the others such decisions are taken in consultation between line managers and HR managers. There are also cases where decisions related to compensation are made independently by the HR department and HR managers – this practice involves complete freedom and autonomy in the decision-making process (Berber et al., 2015). The following Table 2 presents the primary responsibility for defining wages and benefits in Serbia.

Table 2. The primary responsibility for major policy decisions on compensation (%)

	2008	2015
Line Management	72.9	57.5
Line Mgt. in consultation with HR department	20.8	23.8
HR department in consultation with line Mgt.	4.2	15.6
HR Department	2.1	3.1

Source: Authors' analysis based on Cranet research data

From the data in Table 2, it is obvious that in Serbian organisations the primary responsibility for decisions on basic pay and benefits mostly has a line manager (in both research periods). In 2008, the HR department was consulted in 21% of organisations, while the autonomous decisions of the HR department in this area were used only in a small share of organisations (4.2 and 2.1%). In 2015, we can see changes, where, although line managers still make decisions on pay and benefits alone in 58% of organisations, the HR department is involved in this decision-making process to a greater extent, in consultation with line managers (15.6%) and even alone in 3.1%. These differences are not statistically significant according to the Chi Square test.

Table 3. The level of negotiation during the determination of the basic pay for professional workers (%)

Level of negotiation during the determination of the basic pay	2008	2015
National level	40.0	29.4
Regional collective level	14.3	5.6
Company level	94.7	55.6
Establishment-level	22.7	13.1
Individual level	56.5	22.5

Source: Authors' analysis based on the Cranet research data

The level of negotiation in defining basic pay refers to the five possible levels of negotiation from the level of the state collective or the industry collective in which an

organisation operates, regional level, the level of the enterprise or department (division), level of branches (subsidiaries) or facilities, to the individual level, 1 to 1.

According to the data from Table 3, the level of negotiation about basic pay for workers is changed. In 2008, the most of the companies used company level (94.7%), which means that each company based its basic pay for their workers. Beside the level of organisation, basic pay for professionals in Serbia was determined also on the individual level (56.5%), which is usually mostly used as the level of negotiation for managerial basic pay (Berber et al., 2015). In 2015, there was evident the change in the level of negotiation on basic pay. The company level still was mostly used for determination of basic pay for professionals, but the percentage of organisations that use this level for bargaining on basic pay is 55.6%. Beside this, national and individual levels of negotiation are second most used approaches in this area of compensation management. The differences between two periods were statistically significant only in the case of company level negotiation ($\chi^2=20.181$; $p=0.000$, $\phi=0.319$) and individual level negotiation ($\chi^2=11.872$; $p=0.001$, $\phi=0.255$). Organisations in 2015 used these two approaches less than in 2008.

One of the most interesting issues in contemporary compensation management is the incentive pay and wide variety of elements that organisations use to motivate their employees. In this research, we distinguish variable pay on financial participation and performance related pay. Elements of financial participation are employee share schemes, profit sharing, and stock options. Performance related pay consists of several elements like performance related pay, bonus based on organisational, team or individual goals, and several non-monetary incentives.

Table 4. The elements of variable pay for professional workers (%)

Elements of variable pay	2008	2015
Employee share schemes	9.7	2.5
Profit sharing	12.9	13.8
Stock options	16.1	4.4
Individual performance related pay	76.7	63.8
Individual bonus	46.9	42.5
Team bonus	37.5	28.8
Organisational bonus	/	34.4
Non-monetary incentives	/	38.1

Source: Authors' analysis based on the Cranet research data

The data from Table 4 show the extent of the usage of different elements in the incentive compensation package. In 2008, the incentive compensation for professionals was created on the basis of individual pay for performance (76.7% of organisations used this kind of reward), and individual (47%) and team (37.5%) based bonuses. The elements of the financial participation were used to a lesser extent, in the

case of share schemes only 9.7% of organisations, profit sharing in 13% and stock options in 16%. In 2015, there was also evident a change in the level of the usage of these incentives for professional workers. There was noted the decrease in the usage of all incentives, financial participation, and performance related pay. Still, individual PFP and bonuses were used mostly by organisations in Serbia in order to reward their professionals. The differences between two periods were statistically significant only in the case of stock options ($\chi^2=6.093$; $p=0.014$, $\phi=0.179$).

In the 2015 questionnaire the authors explored two more important areas of performance rewards, bonus based on organisational level and non-monetary incentives, which are one of the most important elements in modern compensation packages. About 35% of organisations from Serbia use organisational bonuses and 38% of them use the non-monetary incentive to reward their workers.

Beside incentive pay, another important areas of compensation are benefits. In theory and practice of HRM, there are developed various categories of benefits. Basic benefits are mostly those related to pension and health insurance, which may be required, as is the case in our country. Additional benefits, or, as they are often called, the benefits beyond the statutory provisions, are those benefits that organisations individually offer to their employees, as a part of its remuneration policy.

Table 5. The elements of additional benefits for employees (%)

Elements of variable pay	2008	2015
Workplace childcare	0.0	1.3
Childcare allowances	0.0	1.9
Career break schemes	62.8	41.1
Education/Training break	72.1	54.1
Private health care schemes	10.3	15.9
Flexible/cafeteria benefits	16.1	18.8

Source: Authors' analysis based on Cranet research data

The exploration of the extent of the usage of different elements of benefits is presented in Table 5. It is important to note that these are only additional benefits, since the basic and, in the domestic economy, obligatory benefits on social security, pension and unemployment are already included in gross pay. In 2008, the additional benefits package for professionals was created on the basis of career break schemes (63%) and training break (72% of organisations). The other elements of additional benefits were used to a lesser extent, and in the case of childcare, those were not used at all. In 2015, there was evident a change in the level of the usage of these benefits. There has been noted the decrease of the usage of career and training break schemes, while Serbian organisations started to use workplace childcare and allowances for childcare. Also, organisations from Serbia increased the usage of private health insurance and cafeteria benefits for their

workers. A flexible benefits programme allows employees to select the benefits they need most from a menu of choices. Unlike employers that try to design a one-size-fits-all benefits package, employers with a flexible benefits programme recognise that their employees have diverse needs that require different benefits packages (Gomez-Mejia, Balkin & Cardy, 2012). Still, career and training break schemes are used mostly in order to reward their workers. The differences between two periods were statistically significant in the case of career break ($\chi^2=6.384$; $p=0.012$, $\phi=0.178$) and training break ($\chi^2=4.466$; $p=0.035$, $\phi=0.149$).

5. Conclusion

Compensation is inevitably one of the most important HR practices. They are used to attract, motivate, and retain potential talents and high performers. Based on the research presented in this paper, the authors can conclude that Serbia has specific compensation system:

- The primary responsibility for decisions on basic pay and benefits mostly has a line manager. The HR department was usually consulted but the line management made decisions, while the autonomous decisions of the HR department in this area were used only in a small share of organisations.
- The company level still is mostly used for determination of the basic pay for professionals, but the percentage of organisations that use this level for bargaining on basic pay is decreased. Beside this, national and individual levels of negotiation are second most used approaches in this area of compensation management.
- The incentive compensation for professionals is created on the basis of individual pay for performance and individual and team based bonuses. The elements of the financial participation were used to a lesser extent. About 35% of organisations from Serbia use organisational bonuses and 38% of them use the non-monetary incentive to reward their workers.
- There was noted the decrease of the usage of career and training break schemes, while Serbian organisations started to use workplace childcare and allowances for childcare. Also, organisations from Serbia increased the usage of private health insurance and cafeteria benefits for their workers.

These results are in the line with the research of other authors in this HR area. Poór et al. (2012) find that variable pay determined on performances has been offered more than financial participation to employees in the CEE region. Where financial performance is offered, profit sharing is most commonly used (Karoliny et al., 2009), like in our sample. The variable salary is increasingly related to the performances in Slovakia. Incentives are used for managers and sales staff, while a small share of organisations considered using a cafeteria system and private pension funds (Kachanakova et al., 2009, p. 176-177). Also, line management is

used for decision making on the compensation of employees in the most of the CEE countries (Berber et al., 2015), like in Serbian organisations.

The practical implication is related to the compensation practice for professionals, highly educated and capable workers, in domestic country. Our results show that individual performance related pay and bonus based on individual goals are used mostly as variable incentive pay. This information is important for HR managers and line managers who are responsible for designing attractive compensation packages. Companies should plan and develop incentive packages based on the individual performances in order to attract, motivate and retain their workers.

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RAZVOJ SISTEMA KOMPENZACIJE U SRBIJI: KOMPARACIJA DVA UZASTOPNA PERIODA ISTRAŽIVANJA CRANET

Apstrakt: Osnovna ideja ovog rada je istraživanje razvoja prakse kompenzacija (nagrađivanja zaposlenih) u kontekstu upravljanja ljudskim resursima (HRM) u Srbiji. Ciljevi istraživanja su otkrivanje obima korišćenja različitih elemenata kompenzacije, nivoa pregovaranja pri određivanju osnovne plate, odgovornosti za proces donošenja odluka u vezi sa osnovnom zaradom, stepen korišćenja različitih vrsta stimulacija, kao i istraživanje razlike između ovih podataka između dva perioda istraživanja, 2008/2010 i 2015/2016. Metodologija u ovom radu obuhvata teorijsku analizu kompenzacionog sistema, kao i komparativnu analizu podataka o kompenzaciji u Srbiji na osnovu istraživanja Cranet. Uzorak studije sastoji se od 210 organizacija iz Srbije, 50 organizacija u periodu od 2008. do 2010. godine 160 organizacija u periodu od 2015. do 2016.godine. Ovaj rad donosi nove uvide u razvoj komparativnog menadžmenta kompenzacija, jer ukazuje na promene u praksi nagrađivanja u HRM u Srbiji.

Ključne reči: HRM, kompenzacija, stimulacija, plata, beneficije, Cranet, Srbija.

Authors' biographies

Nemanja Berber is an Assistant Professor at the Faculty of Economics, the University of Novi Sad, the Republic of Serbia. He works in the areas of human resource management, organisational behaviour, urban management, and environmental management. His research interests include human resource management practice in Serbia and Central and Eastern European region, especially employees' compensation, benefits, and training. He participates in CRANET (The Cranfield Network on International Human Resource Management) and CEEIRT (The Central and Eastern European International Research Team) projects on HRM and IHRM.

Agneš Slavić is an Associate Professor at the Faculty of Economics, the University of Novi Sad, the Republic of Serbia. She works in the areas of human resource management, organisational behaviour, urban management, and international human resource management. Her research interests include human resource management practice in Serbia and Central and Eastern European region, especially employees' satisfaction, training and development, and compensation. She participates in CRANET (The Cranfield Network on International Human Resource Management) and CEEIRT (The Central and Eastern European International Research Team) projects on HRM and IHRM.