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## DEVELOPING MOTIVATION MODEL AS A STRATEGY FOR HRM IN SMALL ENTERPRISES UNDER TRANSITIONAL ECONOMY

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### Abstract

Business conditions under transitional economy are specific since business operations should be performed under significant uncertainty and with limited resources (human, financial, technological resources, etc.). Key factor, needed for overcoming those obstacles, improving companies' performances, and introducing company to the global market are human resources (HR). Motivation of employees is usually one of the major problems occurring while developing human resources. Investigation presented in this paper, which was conducted in small enterprises (less than 100 employees) situated in Southeast Europe, revealed that there are two strongest motivation factors for overall employees' satisfaction with their company. Those motivation factors, which have potential for securing and improving employees' position in the firm, are education and performance evaluation system within the company.

*Keywords:* motivation, human resources, transition, economy, strategy

### 1. INTRODUCTION

Large percent of world's economy is nowadays under transitional processes: People's Republic of China (PRC), republics of former Soviet Union, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, former Yugoslav republics (Slovenia, Croatia, Bosnia and Herzegovina, FYR Macedonia, Montenegro and Serbia) and

others. Transitional processes, among all, include transformation of public to private property; introduction to world's trading procedures and foreign investments in domestic firms. All of those, demands radical changes concerning human resources treatment and deployment. To enable those changes, besides positive attitude toward transition, adequate knowledge is necessary to sustain the process of further growth and

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development (Hunter et al., 2006). Experiences of successful companies worldwide usually couldn't be copied. Those experiences should be used as starting point for creating HR models and as base for fast and effective further development. Firms should "think globally and act locally" (Parnell, 2006).

Entrepreneurship and development of small and medium sized enterprises (SME) are, without doubt, future of transitional economy countries. This is evident, having in mind that two thirds of employees in EU are from SMEs and that 99.8 of all enterprises are SMEs. At the same time, in the USA, 97 percent of all employees are working in companies with 20 to 500 employees (Jacks et al., 2006).

It is not often that entrepreneur can operate his business alone. Sooner or later, small entrepreneurial investment will demand engagement of additional work force (Barrett and Mayson, 2006). Work force should be managed in such a manner leading to achievement of companies' goals.

For the companies which plans further growth and development, HRM (Human Resource Management) is becoming more and more important and, accordingly, critical for success (Birch et al., 1995). Rapid development is leading to greater demands of resources, and system itself, which is further translated to managers and employees which are obligated to react quickly under turbulent environment.

Though HRM practice is mainly related to large and well equipped companies, much can be told about HRM in SMEs especially in those faced with challenges of rapid development in concurrent market conditions. HRM starts with understanding the way in which human resources can improve companies' performances and

system sustainability through achieving comparative advantages. Newer the less, small business has its particularities, mostly because of limited resources (material, human, organizational, etc.), leading to difficulties while establishing HRM function. HRM function, on the other hand, should enable human resource management and its activities toward achieving of predefined goals (Wright and McMahan, 1992).

There is large number of cases worldwide which confirms that HRM in SMEs is established as ad hoc activity and having informal shape (Cardon and Stevens, 2006). Organized forms of HRM are usually present in companies having above 100 employees. Still, even in those companies, it is often that HRM function is of formal type. It is obvious that SMEs are "suffering" from "poorness of resources" which is one of the major problems which follows their HRM practice. Practically, establishing formal HRM function produce large costs in small enterprises, concerning time and money (Cardon and Stevens, 2006), which are not treated as a vital investments for the firms wellbeing.

In the modern operational conditions, with open market and globalization, more than 50% of gross social product is based on knowledge, e.g. intellectual property and expertise of the people (The Economist, 1996). In the knowledge based economy (Hunter et al., 2006), comfort is further increasing with engagement of effective management and employees knowledge of using and effective controlling physical and financial goods. Increasing importance of the knowledge is connected with labour fluctuation on the market and it can be stated that investment in the company is usually purchasing the talents, abilities, arts and

ideas which presents intellectual capital of the company, rather than physical or financial resources (Stewart, 1997).

Concerning that human capital is base of intellectual capital; it should be created through institutionalizing of HRM function in the company. This is beginning with attraction, recruitment and employing the best candidates, which is first and most critical phase in the process of intellectual capital creation.

Bill Gates once said: "Matter which restricts Microsoft... depend simply on how difficult it is for us to recruit people which we want in our research team" (Dutton, 1997). However, employing is only the first of three vital processes on which every prosperous organization must base its activities while creating and strengthening its human capital. Company has to develop its employees at all levels and in all specialties to enable them to enunciate their potentials during the process of creating optimal collective contribution. Elemental rule of Strategic HRM (SHRM) state that properly assorted HRM practice have strong influence on improving financial performance of the company. SHRM process is very much present in modern literature (Chadwick et al., 2004; Delery and Shaw, 2001; Wright and McMahan, 1992; Wright and Snell, 1998). Wright, Dunford and Snell (2001) have summarized SHRM topic in literature, which deals with it, from the resource oriented perspective and proposed a model. Basics of his model were organizational learning and innovations toward human resources development. After all, first two processes have no meaning, if the company isn't able to develop adequate department environment and performance evaluation system to retain its best and brightest people (Dess et al., 2007). HRM starts from the fact that

employees are the greatest value of the organization and that their development can largely contribute to sustainable development of the organization. The approach with established practice and strategy of HRM can influence employees' job performance, as well as interrelations among them. This is the reason why it can be stated, doubtless, that HRM has strategic importance for companies operations (Mayson and Barret, 2006).

To enclose process of human resource capital development and, accordingly, to increase firms intellectual capital, motivation of the employees is needful link in the chain having direct impact on their job performances (Ivancevich et al., 2006).

Through process of human capital development, companies can create valuable, special, irreplaceable and well organized resources. One of the strategies for increasing intellectual capital of the firm is organizational learning. Since individual learning is the base of organizational learning (Crossen et al., 1999; Kim, 1993), importance of the employees' motivation raises. Total success in motivation of the employees, especially in the transitional economy, largely depends on employees' acceptance of changes. Accordingly, companies have to develop sustainable HRM practice to motivate employees to learn and to improve their competitive advantages.

Abilities of the employees to fulfill job requirements could be improved after education and training in their company. Organizational structure of the company gives the frame for the employees to achieve required job performance. However, competence of the employees, together with organizational enabling, doesn't mean much if they aren't motivated to achieve required performances. Motivation can be viewed as

the process of agitation, orientating and maintaining of the human behavior toward specific goals, based on three elements: need, action and compensation. For the management of the company it is of great importance to be able to recognize motivational profile of their employees. Work productivity is directly related on employees' degree of motivation. Managers must realize the needs and the motives of their employees and learn how to fulfill them and consequently achieve maximal level of employees' motivation. Employees' satisfaction is the only way for facilitating high level of productivity and employees creativity at long range (Ivanchevich et al., 2006).

At the beginning of the 20th century, strong social and technological discrepancies were arising. At the same time first scientific papers from the field of work organization and learning, related to the Taylor's name, were published. Downsizing and segmentation of the universe of social problems, aiming to determine pattern of relations among work performance and rewards, with personality transformed to "homo economicus" creates capitalistic social awareness of those days (Taylor, 1911).

Later investigations conducted by Mayo, Douglas Mc Gregor, Maslow, Herzberg, Aldeerfer, McClelland, Wroom, Porter, and others (Ž.Živković et al., 2005) indicated complexity of the motivation problems having in mind that people represents complex systems with different individual measures of value. This means that satisfying of needs in hierarchical sequence is not the same individually. What is the same for all the people is that first motive is adequate fulfilling of material needs and safety, and that other needs are lined depending on

numerous factors arising from structure of persons character which is the object of motivation (Hogan and Holland, 2003).

Concerning that people in the organization are behaving differently, which is partially resulting from differences in their personalities, tasks of human resources represents complex activities of adjusting their differences and attaining common corporate goals. Complicated human personality, which is complex system on its own and specially when interacting with environment, further increase complexity of companies operations. This makes HRM activities more difficult. Investigations conducted with aim to classify characteristically types of personalities resulted with two, now well known, models: MBTI (Myers Briggs Type Indicator) (Ivanchevich, 2006) and BFM (Big Five Model) (Luthans, 2005). According to descriptions and dimensions of the personality it is obvious that people are quite different, even so it wouldn't be appropriate to state that person is "better" or "worst" compared to others. People are just different. However, what is important is the type of personal characteristics associated to people of the company. Nevertheless, even if all the characteristics of the people are legitimate; there is necessity to harmonize them with the type of the job delegated to them as the employees. Correlation of personal characteristics with job requirements is not only increasing productivity but also their satisfaction with the job they perform. If you force someone to do the job, which demands personality completely different then he/she possess, he/she would feel dissatisfaction and frustration even if some job looks attractive to another person (Robbins, 2003).

Maslow (1943) discovered that people of the organization could be agitated with five

types of motives (needs), organized hierarchically. Those five groups of needs are: physiological, safety, love/belonging, esteem and self-actualization. Numerous researches revealed that first two groups of needs (physiological and safety) are in most cases at the beginning of the hierarchical scale, and that sequencing of the other three could be altered depending on the structure of the personality and influence of the environment (Lathman and Ernst, 2006).

In the countries with transitional economy (Abrudan, 2006; Roceska and Kostoska, 2006), where most of the business is on the margin of the profit, owners of the SMEs only wishes to obtain larger incomes as quickly as possible with little thought given toward human resources wellbeing, benefits and development. While HRM function development in most cases is omitted (Rakić, 2007). In such environment, according to the Maslow's theory of hierarchical needs, employees place more emphasis on lower sociological needs, which are closely related to them. The reason for such behavior is that they feel depression and frustration caused with the fact that in their professional history and even in their near future there aren't any signs that their higher hierarchical needs will be fulfilled. Then, employees abandon their higher level needs because they don't expect them to be fulfilled. This means they quit their own self-actualization.

The main reason for such behavior could be found in the fact that employees have lost their trust in the firm long time ago. Alderfer's ERG theory (Existence, Relatedness and Growth, 1972) also supports those findings. After changing in the environment, individual must abandon higher level needs and turn toward lower ones.

## **2. LITERATURE REVIEW AND DEVELOPING OF THE MOTIVATION MODEL**

Numerous investigations revealed that motivation factors, resulting from the needs of the employees, are changing with time and have some particularities at the beginning of new millennium (Lathman and Ernst, 2006). Socio-analytical investigations, (Hogan, 2003; Hogan and Holland, 2003) showed that people have genuine needs for: (1) acceptance and approval, (2) status, power and control and (3) predictability and order. Speculations resulting from Maslow's and Hogan's theories suggest that people's needs are universal. Individual differences among people are issued from the characteristics of their personality. Workers in the transitional economies, of post-communistic countries, have larger sensitivity of their needs resulting with better acceptance of the five point scale, developed by Maslow (1943), when developing a motivation model (Tsai, 2007; Haiyang and Zhang, 2007). This scale was further modified by Locke and Henne (1968) and Lathman and Pinder (2005) to accommodate revealing of motivation principles that are acceptable at the beginning of new millennium (Latham and Ernst, 2006).

HRM represents the modus of managing workforce and their activities with the aim to enable achieving of the companies goals (Wright and McMahan, 1992). This implies the activities of the human resources which will upgrade firms' performances, achieving of companies goals and sustainability of the system, through obtaining comparative advantages (Barney and Wright, 1998; Wright et al, 2001; Wright et al., 2005). Employees have interest in achieving competitive advantages of their companies,

especially in transitional economy, (Haiyang and Zhang, 2007) mostly because their memories and previous experiences from, so called “deliberative economy” are unpleasant. Literature suggests that, in the conditions of transitional economy, top managers must play important role in achieving risky goals (Keeley and Roure, 1990; McGree et al., 1995). Generally, managers can use two types of resources: human capital in the form of peoples experience (Mc Gree et al.,1995) and the social capital as their external connections (Shane and Cable, 2002). Those resources could be used as the link to other resources, aiming to develop competitive advantages and obtaining better performances (Barney, 1991). During the process of HRM system creation, key role lies on employees’ motivation without which it wouldn’t be possible to obtain their effort and loyalty (Lathman and Ernst, 2006).

### **2.1. Developing hypothesis and suggestion of the model**

Five-point motivation scale (Maslow, 1943) is based of fulfillment of the needs in their hierarchical sequence: (1) physiological (material); (2) safety; (3) belonging; (4) esteem and (5) self-actualization. Investigations conducted during beginning of the 21st century (Lathman and Ernst, 2006; Hogan, 2003; Hogan and Holland, 2003; Lathman and Pinder, 2005) revealed that motivation factors are changing with time and that they have certain particularities, at the beginning of the new millennium Postulates resulting from Maslow’s (1943) and Hogan’s (2003) theories could be applied for investigating and developing of the motivation models in post-communist countries with the

transitional economy (Tsai et al., 2007).

#### **2.1.1. Physiological (material) conditions**

Material compensation of the employees for their efforts, in the environment of transitional economy, is often inadequate to fulfill their basic human needs. This results with workers dissatisfaction with their jobs. Increasing job organization, workers satisfaction increase resulting with positive impact on productivity and accordingly, better performances of the company (Wright et al., 2001). As the result of better production, employees are rewarded which is especially noticeable in post-recession companies after 1980 (Brouckner, 1988; Brouckner et al. 1993; Mone, 1997; Shah, 2000) and in transitional economy firms during post-communistic era. In the transitional economy, the process of privatization is usually followed with introduction of new technologies. Management, under those conditions, is mostly relaying on previous experiences (Haiyang and Zhang, 2007) which can be dangerous without motivating people to adapt to new technological procedures (obtaining new knowledge for the new technologies). Difficulties to compete with larger firms, concerning salaries, force small enterprises to pay much attention on employees compensation system (Burrett and Khan, 2004). This assume creation of new organizational forms in the company. Resistance to new organizational forms is lower if they contribute to increased financial performances of the company, and consequently, material compensation of the employees for their effort. Those facts reveal that following hypothesis can be suggested:

*H. 1 a. Increasing employees’ rewards*

(salary) is positively correlated with jobs organizational changes.

Employees standard of living, in transitional economies, is on much lower level compared to workers in developed economies (Japan, USA, EU, etc.) resulting with possibility of fulfillment only the lower hierarchical needs (Ajila, 1997). This is the reason why benefits are often concerned as tool for promoting care and attention of superiors toward employees and to improve their loyalty toward their firm. Socio-analytical theory (Hogan, 2003) indicates that there are individual differences among people. Even so, all forms of rewards are generally well accepted especially in small firms. This is the reason why this form of stimulation shouldn't be neglected in the HRM strategies. Business philosophy is conceptually changed at the beginning of the 21st century. Many work tasks could be performed at home during 24 hours, which offers numerous possibilities for motivating of the employees, through different forms of benefits based on savings made this way (Lathman and McCauley, 2005). Employees accept all forms of benefits as the sign of significant care from their superiors, which can be additional motivation factor for future better performing. Stimulating employees through different forms of benefits leads to following hypothesis:

*H.1 b. Introducing different forms of benefits for employees is well accepted employers care.*

Numerous motivation theories, which defines motivation elements of the jobs in the future, (Lathman and Ernst, 2006) points out that worker is a complex human being having his home, family and friends, besides his engagement in the firm. Worker has needs to be fulfilled outside the firm because meaning of his life is not only in his work

engagement. Management of the firm must understand those needs and consider them in the HRM strategy (holistic employee care). Only this kind of approach can ascertain complete loyalty and dedication of the employees. During last 20 years, in many companies, this problem was not considered as much as it should, especially in small enterprises. This resulted with demotivation of the employees (Dalton et al., 2002). Reestablishing motivation values such as fear material compensation is of special importance in transitional economy. Adequate compensation system in the firm enables achieving satisfactory standard of living (Baker et al., 2005), which upgrade balance among employees family life and his work. Compensation system upholds material satisfying of the employees. This is one of the employees' lower hierarchical needs, which leads to following hypothesis:

*H. 1 c. adequate compensation system is positively influencing balance among employees' personal life and work (work/life balance).*

Superiors care toward employees is, among all, manifested in creating adequate workplace conditions. Herzberg et al., (1959) during developing of his theory of motivation, points out that workplace conditions are one of the important psychological motivation factors, which was proven in later investigations (Parker and Wall, 1998). In large companies, operating in developed economical systems, much attention is paid on work safety and ergonomics of the workplace, mostly according to the legal regulations. Recently, with introducing of quality systems ISO 14000 and OHSAS 18002, those demands are particularly in the focus (Occupation health and safety management system, 2007).

In small firms, HRM practice together with taking care of workplace conditions is often established only formally (ad hoc). Cardon and Stivens (2004) pointed out on differences related to HRM practice in small companies from different geographic regions. In the USA firms with less than 500 employees are considered as small ones, in Europe this number is below 250 (Bacon and Hoque, 2005) and in Australia, according to the “official” national classification, this number should be less than 20 employees (ABS, 2002). A company declared as “small” usually doesn’t grow (Mayson and Barrett, 2006). In countries with transitional economy, this kind of small companies’ classification isn’t established yet. Usually it is considered that company is small if it employees less than 100 people. In those companies, work conditions are often neglected mostly because statutory demands do not exist, at the national level, or, if present, rarely applied.

When concerning increase of the employees job satisfaction, management must pay due attention to workplace conditions during creation of adequate HRM system (Maierhofer et al., 2002; Tsai et al., 2007). This is of special importance in small firms (Mayson and Barrett, 2007). In the frame of creating better workplace conditions, following hypotheses could be proposed:

*H. 1 d. Workplace conditions are positively influencing job satisfaction.*

### **2.1.2. Safety and social security**

Care and attention are strong motivation factors, creating sense of safety among employees which enables them to focus their full attention on their job tasks. This can be considered as the form of psychological

contract among workers and executives of the company (Millward and Brewerton, 2002). Care for employees, as the part of HRM practice, reflects job organization. It results from common effort for achieving companies’ goals, respecting social, psychological and other problems employees are facing after changing the job organization (Naumann, 1998; Mckee–Ryan and Kinicki, 2002). Employees’ satisfaction with attitude and care of their superiors creates psychological safety among them and loyalty toward firm. This has crucial importance for future strategy of HRM development. Workers safety and social component are important elements of their social security (Cascio, 2002) and adaptability to ongoing changes of the job organization, which is the result of technological progress. Some investigations reveals creation of positive organizational climate, after certain restrictive measures, with employees continuing their careers in same firm owing to positive relations, attention and care of their superiors (Mc Master, 2002; Beam, 1997). Bad experiences which transitional economy employees carry from the period in their life, when they worked under communist regime (especially from the period of its collapse), can be strong motivation factor under altered conditions. This is possible with the condition that new employees take adequate care of their feelings, related to the new organizational environment. This gives opportunities to HRM strategy, of those companies, to create gain employees loyalty and trust (Naumann, 1998). Following hypothesis can be propounded according to the above considerations:

*H. 2 a. Job organization changes have positive influence on employees, if superiors take care of their feelings.*

People having great personal values also have high goals which they try to accomplish in their business and private life (Stajkovic and Luthans, 1998). Employees have aspiration to accomplish their personal ambitions through their career development and often set themselves higher goals (Bandura 2001). People's behavior during creation of balance among their work and life, depends primarily on their personal characteristics (Gall, et al., 2005). Having in mind that the desire for career improvement is common attribute of most people (Lathman and Ernst, 2006), following hypothesis could be suggested:

*H. 2 b. Balance of work and life is positively influencing aspiration for employees' career development.*

Under the modern conditions many companies, especially production ones, have problems with accomplishing safe working environment and decrease in number of injuries during work, as well as upgraded environment protection. In developed economies, those topics are strictly regulated by law, resulting with lower number of problems and improved work satisfaction related to this part of HRM practice. In the countries having transitional economy, juristical procedure is also transitional, and much of regulations are not applied. Concept of job satisfaction was initially proposed by Hoppock in 1935. He considered that job satisfaction was based on employees' satisfaction with the work environment and factors that influence employees' satisfaction physically and psychologically. These factors mostly were related to employees' subjective reactions on their work environment conditions. With job humanization and development of behaviorist theories, workplace conditions gain importance in modern organizations

(Vroom 1964, Bandura 2001). Under the system of organizational learning, within the company, many aspects of human and social job organization are created (Hislop, 2001) which, at the final, enables creating better workplace environment. Continual improvement of training system leads to upgraded work conditions. Above discussion allow us to suggest following hypothesis:

*H. 2 c. Work conditions are positively influenced with adequate educational and training system in the firm.*

### **2.1.3. Acceptance**

Natural desire of satisfied worker is to be promoted in his company. Also, satisfied employee identifies himself with company's goals (Maslow, 1943). This paradigm is evident in almost all behaviorist theories defined in the second half of 20th century (Robbins and Coulter, 2005). Personal characteristics of the people, initiate their aspiration for promotion, (Gal et al. 2005) which can be recognized in most of the people (Lathman and Ernst, 2006). If those possibilities are enabled through companies HRM then following hypothesis is proven:

*H. 3 a. Creating possibilities for career development (promotion) in the firm is positively correlated with superior care of employees.*

Under the conditions of market and economy globalization, knowledge is becoming key resource for companies' better performances (Barnney, 1991). Under the transitional economy, transformation of the market is promoted by its own mechanisms, while planned government driven market orientation doesn't exist (Zhou, 2000). This is forcing managers to use different types of resources obligated with market conditions (Haiyang L. and Zhang Y., 2007). In the

modern world, human knowledge is dominant resource which “progressive” increase output performances of the company, governed by its HRM system (Jeffrey and Boyles, 2007). To be able for adequate respond to modern demands under new economy conditions, and to contribute further increase of companies performances during post communist era (transitional economy), employees are forced to permanently increase their own knowledge. Investigations indicate that employees are often motivated for individual education. Nevertheless, under the conditions resulting from organizational changes, education organized within the company (organizational learning), as the part of HRM strategy, provide much better practical results (Tsai et al., 2007). Forming the organizational learning systems is strategic process for future competitive advantages (Vera and Crossan, 2004). Individual learning can not be avoided, nevertheless it should result from organizational learning as the main strategy of the companies HRM system (Senge, 2003). The HRM practice of organizational learning gives excellent results in the firm (Chadwick et al., 2004; Delery and Shaw, 2001). Through the system of organizational learning, as the way of company’s care of the employees, sense of belonging to the company is created. Those procedures form such atmosphere among employees, with their general opinion, that career development within the firm is only possible with new knowledge obtained during the trainings (Vera and Crossan, 2004). Numerous investigations indicate that there is positive correlation among organizational learning, realized through HRM system, and financial results of the company (Wright et al.2001). When firm achieve positive financial results due to the

knowledge of the employees, possibilities for their promotion and obtaining better positions are higher, which leads to following hypothesis:

*H. 3 b. Ambition for the promotion is positively influencing development of the system for employees training and education.*

#### **2.1.4. Self-actualization**

Overall employee satisfaction is much depended on care and attention of their superiors, since ongoing organizational changes always include emotions (Liu and Perrewe, 2005; Huy, 2002). To increase employees’ satisfaction with their company, management should continuously demonstrate care and attention toward employees together with understanding of their needs (Mitchell and Daniels, 2003). Those needs are especially significant concerning employees who set themselves high personal goals and have ambition for self-actualization within the firm (Van – Dijk and Kluger, 2004), which leads to following hypothesis:

*H. 4 a. Superiors care of employees is positively influencing their overall satisfaction with the firm and with their feeling of belonging to it.*

Overall satisfaction of the employee with the firm is one of the elements of the job motivation. People having high individual values usually are setting higher personal goals. This makes personal satisfaction with the company, which results from individual motivation, a very complex psychological category (Bandura, 2001).

Under modern conditions of technical and technological development, followed by globalization of economy and market, continuous learning of the employees is

imperative of modern time. Creating conditions for employees continuous learning is organizational problem which is one of the most important element of the strategy of creating comparative advantages (Vera and Crossan, 2004). System for training and education of the employees is of strategic importance for the companies tending to increase their competitive advantages in the market (Cascio, 2002). Creating the organization structure which enables continuous learning within the company resulting with achieving so-called: “learning company”, is of crucial importance for obtaining concurrent advantages (Vera and Crossan, 2004) in the modern business environment. SMEs operating in the transitional economy tend to obtain advantageous market position. This can be realized only with employees’ effort, if they are motivated to receive new knowledge and, this way, ascertain their position in the company. HRM practice indicates (Tsai et al., 2007) that employees will be motivated to receive new arts and knowledge, and to increase their performance, only if is satisfied with organization in which they

work (Delery and Shaw, 2001). It is obvious that there is correlation among education and training system and employees satisfaction with their firm. This leads to following hypothesis:

*H. 4 b. System for employees’ education and training is positively influencing their overall satisfaction with the firm and creates their feeling of belonging.*

According to the cumulative consideration of all proposed hypothesis, in the hierarchical range of needs as main motivation forces for the employees in small transitional economy enterprises, basic structural motivational model can be constructed, Figure 1. This figure presents common influence of technical and social aspects on employees’ motivation, aiming to further increase performances of the company. During establishing HRM system, in small firms in transitional economy, such model will promote development of HRM function, mostly from the aspect of employees’ motivation.

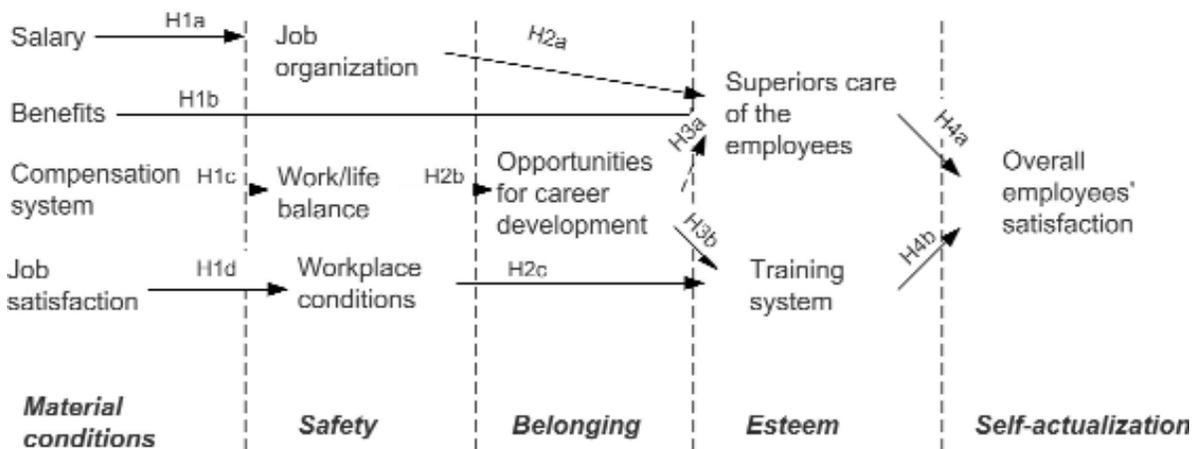


Figure 1. Basic structural motivation model for small enterprises in the transitional economy

### 3. METHODOLOGY

Investigation process described in this paper was conducted applying quantitative methods. We used questionnaire surveys to perform the quantitative study. The whole process of data collection, analyzing and processing lasted almost one year.

#### 3.1. Sample

Further testing of offered hypotheses was performed with empirical investigations, conducted in small enterprises in Serbia, Montenegro, Bosnia and Herzegovina and Bulgaria all in the same region of Southeast Europe. Choosing the firms to be included in investigations was based on databases from the National Registers of the Economic Subjects in those countries. Criteria for the firms' selection were: number of the employees, which was set to 20 – 100, and positive financial results in previous period of their operation. At the beginning of the investigations sample of 147 firms was selected (75 from Serbia, 25 from Montenegro, 32 from Bosnia and Herzegovina and 15 from Bulgaria). Questionnaire (appendix A) was mailed to representatives of all those companies', with request to be filled by all structures of the employees' and to involve not less than 30% of total numbers of the employees. One month after initial contact, another contact was made. Non-respondents were called one month after initial contact to ask if they had received the questionnaire and to remind them of the importance of their cooperation. One month later the process of questionnaires return was completed. During this period, completed questionnaires were returned from 23 companies for an effective response rate of 15.64%. As an incentive,

respondents could indicate whether they wanted to receive summary of the research findings. Over 81% answered yes, indicating the relevance of this study to the respondents. In total, 573 completed questionnaires were returned from 12 Serbian companies, 5 Bosnian and Herzegovinian, 3 Montenegrin and 3 Bulgarian firms. There were 523 valid questionnaires. The invalid returns included those with too many questions missed out or those without thoughtful answers, for example, those with the same answers throughout the questionnaire. Structure of those companies was: 17 production (73.91%), 4 trading (17.39) and two institutes (8.69).

Demographic structure of investigated sample indicate female/mail ratio to be equal to 1.24; 78% of the employees are younger than 40 years; 84% of the employees are employed in the same firm during past 5 to 15 years; 84% of the employees have graduated high school; 80% of the employees are the part of firms manufacturing and maintenance staff and 85% of the employees doesn't have additional incomes besides salary they earn in the firm.

Results obtained, clearly revealed that investigated firms from this part of the world (West Balkan – Southeast Europe), are relatively young concerning both the time since their foundation (10 to 15 years) and their employees age. If we suppose that this random sample could be regarded as representative, than we could assume that the situation is similar in all other small firms from this part of the world. Firms where 78% of the employees are younger than 40 years have good potential for their further training and education, and for creation of partnering relationship with both their customers and

the suppliers (Ž.Živković et al., 2003). At the same time, educational level of the employees is appropriate (high school and academy) for their further development, through regular education system, and different forms of internal and external training within the company.

Development of HRM function in considered companies obviously should be directed toward creating adequate models for employees' motivation and establishing conditions for their promotion and self-actualization tending to keep them in company and identifying their goals with the firms' strategic goals.

**3.2. Results of measurements**

The research used questionnaire survey as the main tool to collect mass data. Likert's five-point scale was employed to measure the variables. The possible answers were in the range: very satisfied (5), satisfied (4), no difference (3), dissatisfied (2) and very dissatisfied (1). Employees were asked to fill the questionnaires by checking an appropriate alternative. This type of scale was used considering that this survey

included employees having lower education level, who should easily understand the meaning of the five point scale. Seven point Likert's scale is used much often (Molina et al., 2007; Tari et al., 2007), however, authors of this text considered that five point scale is appropriate in this case. Questions in the questionnaire resulted from the hypotheses defined above (chapters 2.1.1 through 2.1.4).

**4. RESULTS**

Results of descriptive statistics for all 11 questions considered in the Appendix 1 (VAR0001 to VAR00011) are presented in Table 1.

Before further consideration of the correlations among variables and multiple regressions analysis, goodness-of-fit measurements, of questionnaire results, were performed. Further factor analysis was performed on population comprising set of all the answers to all 11 questions. As main parameters for goodness-of-fit rating, Chi-square test and Cronbach's alpha parameter were used.

Chi-square test consists of determining

*Table 1. Descriptive statistics for considered motivation parameters*

	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
VAR00001	4.00	1.00	5.00	2.8462	1.25953	1.586
VAR00002	4.00	1.00	5.00	2.8590	1.23503	1.525
VAR00003	4.00	1.00	5.00	3.2308	1.40429	1.972
VAR00004	4.00	1.00	5.00	4.0128	1.01282	1.026
VAR00005	4.00	1.00	5.00	3.1026	1.17981	1.392
VAR00006	4.00	1.00	5.00	2.1026	1.22304	1.496
VAR00007	4.00	1.00	5.00	3.5641	1.27503	1.626
VAR00008	4.00	1.00	5.00	2.3077	1.33200	1.774
VAR00009	4.00	1.00	5.00	3.6410	1.24811	1.558
VAR00010	4.00	1.00	5.00	3.0769	1.32674	1.760
VAR00011	4.00	1.00	5.00	4.0385	1.03751	1.076

Chi-square coefficients (X2) and their ratio on degrees of freedom (d.f.). For population investigated in this work, this ratio was:  $X2/d.f. = 1.62$  (with  $X2 = 34.1018932$  and  $d.f. = 21$ ). As suggested by several researchers (Brooke et al., 1988; Cermines and McIver, 1981; Hoetler, 1983), a ratio lesser than 2.0 indicates an excellent model fit, meaning that data from entire population can be described with unique model. In the results of Hear and Molina (Hair et al., 1998; L.M. Molina et al., 2007), this ratio was set to optimal value in the range 1 to 3, or even 5. Values of specified ratios, for results presented in this paper, are satisfactory, according to both groups of authors.

Value of Cronbach's alpha coefficient, for whole population, is 0.987. Value of Cronbach's alpha, above 0.7, confirms good modeling possibility of investigated

population. Besides Chi-square and Cronbach's alpha, as goodness-of-fit (GFI) measure we considered coefficients defined by Cox and Snell (k1), Negelkerke (k2) and McFadden (k3). Values of those coefficients were:  $k1 = 0.938$ ,  $k2 = 0.990$  and  $k3 = 0.942$ , which further confirmed good modeling possibilities of investigated population.

#### 4.1. Correlations among variables

Aiming to test established hypothesis, correlation coefficients among paired variables, representing each hypothesis, were calculated. Results of calculating Pearson's correlation coefficients for paired variables are presented in table 2.

According to the results presented in Table 2, several interesting findings should be noted. Almost all hypotheses have high

Table 2. Pearson correlation coefficients of investigated population

	Var.01	Var.02	Var.03	Var.04	Var.05	Var.06	Var.07	Var.08	Var.09	Var.010
Var. 01-salary										
Var. 02-benefits	.862(**)									
Var. 03-care and attention of the superiors	.931(**)	.940(**)								
Var. 04-job satisfaction	.877(**)	.874(**)	.893(**)							
Var. 05-career development	.850(**)	.937(**)	.895(**)	.890(**)						
Var. 06-compensation system	.879(**)	.809(**)	.825(**)	.775(**)	.812(**)					
Var. 07-education and training system	.904(**)	.909(**)	.927(**)	.920(**)	.919(**)	.787(**)				
Var. 08-work/life balance	.880(**)	.848(**)	.829(**)	.806(**)	.839(**)	.937(**)	.837(**)			
Var. 09-overall employee satisfaction	.890(**)	.919(**)	.930(**)	.928(**)	.916(**)	.765(**)	.969(**)	.825(**)		
Var. 010-job organization	.948(**)	.902(**)	.952(**)	.869(**)	.866(**)	.835(**)	.926(**)	.846(**)	.919(**)	
Var. 011-workplace conditions (safety and environmental protection)	.839(**)	.825(**)	.841(**)	.926(**)	.899(**)	.713(**)	.916(**)	.753(**)	.903(**)	.838(**)

\*\* Correlation is significant at the 0.01 level (2-tailed).

positive correlations. The most positive correlation among the variables was obtained for the hypotheses H.4b: Overall employee satisfaction is strongly correlated with education and training ( $r=0.969$ ,  $p<0.01$ ). It is worthwhile that one of the most positive correlations among the variables was obtained with overall employee satisfaction, which exposes the contribution of this study, and is presented in basic model shown in Figure 1. Further testing of proposed hypothesis included Paired sample t – test. Results of this test are presented in table 3.

If analyzing results presented in Table 3, it is obvious that there are strong positive correlations among all paired questions representing above proposed hypothesis. Value of t-test parameters indicates strong reasonable linkage among paired questions (variables), which means that there is functional dependence among them. Only the pair which represents hypothesis H.1d (workplace conditions are positively influencing job satisfaction), although having relatively high positive correlation, shows mutual independence of the questions

Table 3. Results of the Paired sample T-test for pairs related to certain hypothesis

Hypothesis	Correlation	Sig.	t	Sig. (2-tailed)
H.1a Salary & Job organization	.948	.000	4.806	.000
H.1b Benefits & Care and the attention of the superiors	.940	.000	6.751	.000
H.1c Career development & Work life balance	.937	.000	3.888	.000
H.1d Job satisfaction & Workplace conditions	.926	.000	-.575	.567
H.2a Care and the attention of the superiors & Job organizations	.952	.000	3.169	.002
H.2b Career development & Work life balance	.839	.000	9.654	.000
H.2c Education and training system & Workplace conditions	.916	.000	7.938	.000
H.3a Career development & Care and the attention of the superiors	.895	.000	1.793	.007
H.3b Career development & Education and training system	.919	.000	8.124	.000
H.4a Care and the attention of the superiors & Overall employee satisfaction	.930	.000	6.959	.000
H.4b Education and training system & Overall employee satisfaction	.969	.000	2.171	.033

Correlation is significant at the 0.05 level (2-tailed).

in the hypothesis ( $t = -0.575, p > 0.05$ ). Figure 2 is schematically representing obtained results of structural motivation model with values of correlation coefficients among considered variables. Correlation coefficients are all with high values which indicates that hypothesis were nominated correctly and motivation model (Fig. 1) was structured properly.

Basic model presented in Figure 1, was created according to the Maslow's five point motivation scale (Maslow, 1943), and discussed in previous text. Analysis of correlation coefficients for paired variables, constituting the hypothesis, proves that all hypothesis were constructed logically, which is obvious if observing Figure 2. To define

final model and perform detailed consideration of the questionnaire results, multiple regression analyses was performed.

### 4.2. Multiple regression analysis

As the basis for multiple regression analysis starting model, presented in Figure 1, was used. Analysis of this type was performed to determine relative influence of every variable on overall employee satisfaction. To control the effect of suggested variables on the regression analysis, four stage hierarchical regressions were performed. In the first stage, employees' overall satisfaction was considered as dependent variable while:

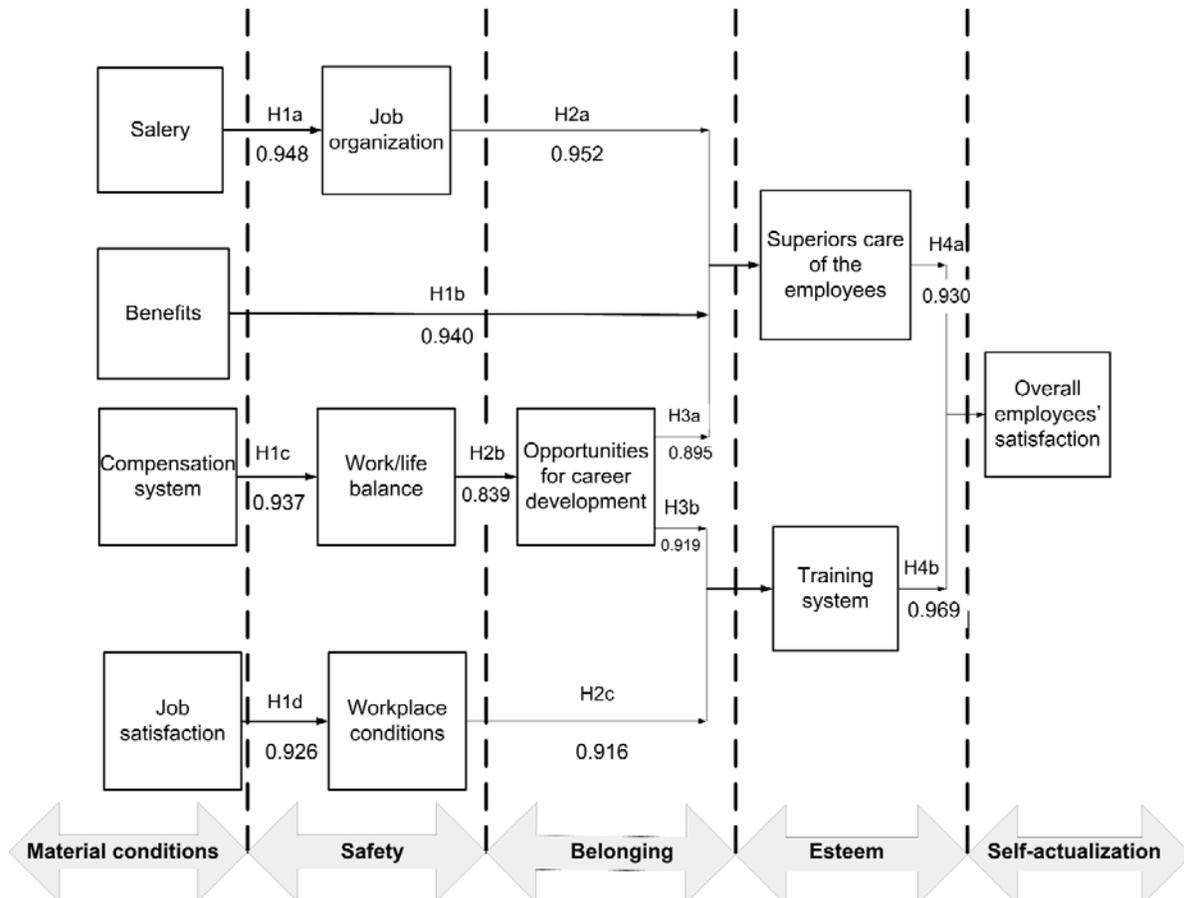


Figure 2. Structural motivation model with values of interrelation correlations

salary, benefits, compensation system and job satisfaction presented a fixed block of independent variables for the model. This way, influence of lowest hierarchical stage, of Maslow's motivation factors (Material conditions-physiological needs), on overall employees' satisfaction was analyzed. In subsequent models, variables representing higher hierarchical levels were added to the

model, in sequences, and resulting changes were observed. This way, in the second stage, job organization, work/life balance and workplace conditions were added as independent variables representing safety. In the third stage, opportunity for career development was added as characteristic of belonging. In the final - fourth stage, superiors care of the employees and training

Table 4. Hierarchical multiple regression analysis

No	variable	$\beta$	T	P**	R <sup>2</sup>	$\Delta R$	F	F-change	Significant F-change	Group of the motivation factors
1	Overall satisfaction		-0.862	0.391	0.923		219.075			Material conditions - physiological
	Salary	0.302	3.315	0.001						
	Benefits	0.433	5.759	0.000						
	Compensation system	0.425	5.479	0.000						
	Job satisfaction	-0.181	-2.584	0.012						
2	Overall satisfaction		0.129	0.898	0.940	0.017	155.684	6.395	0.001*	Safety
	Salary	0.015	3.304	0.002						
	Benefits	0.268	2.909	0.005						
	Compensation system	0.276	-3.073	0.003						
	Job satisfaction	-0.278	2.247	0.028						
	Job organization	0.213	2.952	0.004						
	Work/life balance	0.323	2.257	0.002						
Workplace conditions	0.181	0.129	0.898							
3	Overall satisfaction		-0.858	0.394	0.942	0.002	138.820	2.193	0.143*	Belonging
	Salary	0.033	0.287	0.775						
	Benefits	0.157	1.430	0.157						
	Compensation system	0.293	3.089	0.003						
	Job satisfaction	-0.313	-3.370	0.001						
	Job organization	0.213	2.267	0.026						
	Work/life balance	0.343	3.136	0.003						
	Workplace conditions	0.094	0.955	0.343						
	Opportunities for career development	0.173	1.481	0.143						
4	Overall satisfaction		-0.071	0.944	0.959	0.018	157.479	14.519	0.000*	Esteem
	Salary	-0.043	-0.416	0.679						
	Benefits	0.061	0.564	0.575						
	Compensation system	0.215	2.601	0.004						
	Job satisfaction	-0.211	-2.558	0.013						
	Job organization	0.145	1.658	0.102						
	Work/life balance	0.123	1.184	0.240						
	Workplace conditions	-0.022	-0.246	0.807						
	Opportunities for career development	0.081	0.807	0.423						
	Superiors care of the employees	0.125	1.047	0.003						
	Training system	0.516	5.028	0.000						

\*significant at the 0.01 level

\*\* significant at the 0.005 level

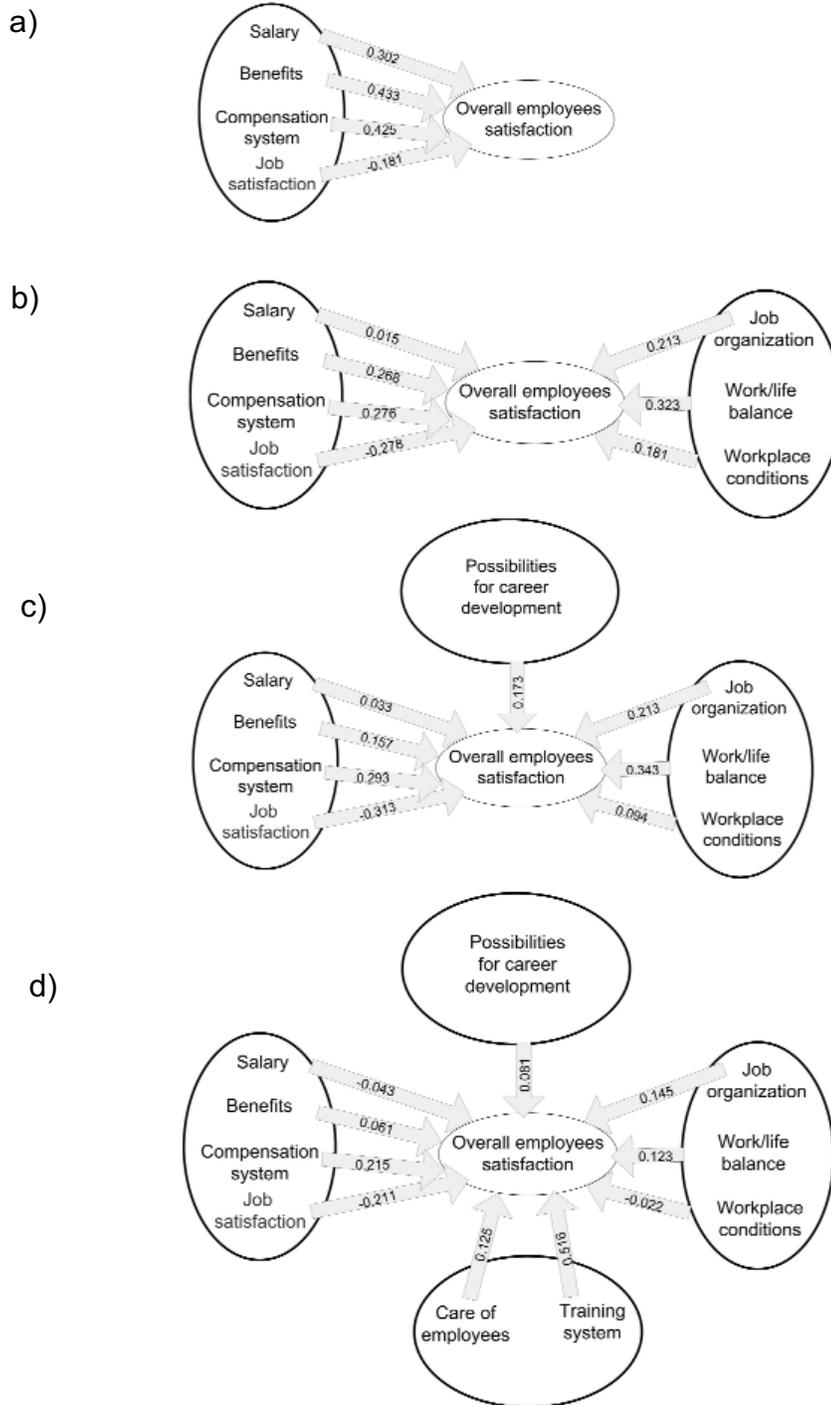


Figure 3. Final model representing influence of singular motivation factors on overall employees' satisfaction ( $X^2/d.f. = 1.62$ ; Cronbach's alpha 0.98)

- a) Influence of material conditions on overall satisfaction
- b) Adding safety motivators
- c) Adding belonging motivation factors
- d) Adding esteem motivation factors

system were added, representing esteem. Results of multiple regression analysis are presented in Table 4.

According to the results obtained, using multiple regression analysis, final motivation model was constructed and presented in Figure 3. If observing model presented in figure 3, it is obvious that importance of singular motivational factor changes when increasing complexity of the model. This, once again, proves the complexity of human beings and systems which they consist, making nature of their motivation hard to explain as discussed by Dessler (Dessler, 2006) and Lethman and Ernst (Lathman and Ernst, 2006).

## 5. DISCUSSION OF THE RESULTS

If analyzing results presented in Table 4, following could be concluded. If the overall employees satisfaction is influenced only by lowest hierarchical level of motivational factors (material conditions), most influencing variable is benefits ( $\beta = 0.433$ ,  $p < 0.005$ ), followed by compensation system ( $\beta = 0.425$ ,  $p < 0.005$ ) and then salary ( $\beta = 0.302$ ,  $p < 0.005$ ), while job satisfaction has no statistical significance.

When introducing the next, higher, hierarchical block of motivational factors (safety) significant changes happens ( $\Delta R = 0.017$ ,  $\Delta F = 6.395$ , while  $p < 0.005$ ). Most influencing motivation factor now becomes work/life balance ( $\beta = 0.323$ ,  $p < 0.005$ ) as one of the element in the safety block, while the influence of benefits ( $\beta = 0.268$ ,  $p = 0.005$ ) and compensation system ( $\beta = 0.276$ ,  $p < 0.005$ ) decrease. The highest change happens with influence of salary ( $\beta = 0.015$ ,  $p < 0.005$ ). From the group of safety block also, high significance is observed for job organization ( $\beta = 0.213$ ,  $p < 0.005$ ). This way,

if comparing significance of material conditions and employees' safety, in the transitional economy, safety has higher importance for the employees. This is logical outcome, if concerning employees' lose of trust in the firm during previous period of time, and the fact that large number of employees lost their jobs during downsizing of the company (Tsai, 2007; Haiyang and Zsang, 2007). Remaining employees' ("survives"), after downsizing, have lost large number of their colleagues and, are in constant fear of losing their jobs. This results with their opinion that they would be ready to accept safety of employment, even if it brings lower salary and incomes. The reason for such behavior lie in need to have safety for them and their families, considering that in the region, where this investigation was performed, the rate of unemployment is very high (Abrudan et al., 2006; Ilieska, 2006).

Introducing next hierarchical level (belonging), which in the model discussed has only one element: opportunities for career development, doesn't create much changes compared to previous stage ( $\Delta R = 0.002$ ,  $\Delta F = 2.193$ , while  $p > 0.005$ , meaning that  $\Delta F$  doesn't have statistical significance).

Significant changes happen after introducing next hierarchical level (esteem). Namely, primal influence on overall employees' satisfaction is with training system ( $\beta = 0.516$ ,  $p < 0.005$ ), which also has largest total influence on final model. Organizational learning obviously has dominant influence on employees' motivation, as the base for increasing performances of the company and safety of employment (Mayson and Barret, 2006). This additionally decrease influence of material conditions, with exception of compensation system which still remains

with large influence ( $\beta = 0.215$ ,  $p < 0.004$ ), as an means for preventing subjective decisions of irresponsible managers (Haiyang and Zhang, 2007). The other esteem factor: superiors care of the employees' is also important, yet having significantly less relevance ( $\beta = 0.125$ ,  $p < 0.003$ ). This result can be explained with employees' belief that if employer gives them opportunity for additional education and training, he plans to keep them in the firm in the future (Vera and Corson, 2004). This expresses high level of employers care of his employees. Of course, this premise, has large influence on overall employees satisfaction only if company develops fair compensation system (Burrett and Khan, 2004; Baker et al., 2005). One of the means for employees awarding is favorizing those who had better performance in the past when promoting to higher positions. This thesis has much sense if considering that most of transition economy companies are privatized and foreign-invested, or are in process of privatization, where social dimension has high importance (Cascio, 2002). Privatization process is always followed with introducing new, modern technologies in the production process. New processes demands new knowledge, which can be obtained during employees training and education (Tsai et al., 2007). If company invests in employees' development, this will retrieve their trust and make them motivated for future work (Vera and Corssan, 2004). It can be concluded that proper direction during development of company's HRM strategy, after and during the transition, is to create compensation system fairly (Ivanchevich et al., 2006). This way, employees don't expect material goods for award. Instead, they welcome possibility to develop their knowledge and to become enabled for operating in the part of new

technological process (Chadwick et al., 2004). This further ascertains their position in the company. In such environment, fear of losing their jobs has much influence on motivating the employees'. Developing the system of organizational learning will reestablish employees trust in the company as the result of increased safety. Such HRM strategy enables employees to provide safety for their families as well, which increase their overall satisfaction (Millward and Brewerton, 2002).

## 6. CONCLUSION

According to the model developed (Figure 3), which demonstrate influence of motivation factors on overall employees' satisfaction in small enterprises, it is obvious that employees' have interest in performances and success of their company.

Situation in the filed shows that, in small transitional economy companies, HRM function is completely neglected and that it can be detected only as sporadic (ad hoc) item. This kind of behavior is often, even in developed economies (Gordon and Stivens, 2006). It is often considered that this function increases loses of time and money (McEvoy et al., 2002) and that it shouldn't be regarded as proper investment for the firm and its vital interest.

An experience of post-communist transitional economy indicates numerous turbulences resulting from leading business at the margins of the profit. Since transition, in this part of the world, is ongoing process this way of doing business has decreasing trend and further survival of the firms is relaying on their growth and development (Hutner et al., 2006). Under the globalization conditions which also enrolled the countries of this region, fluctuation of highly skilled

employees, mostly toward USA and EU countries, is permanent (Barauch et al., 2007). Those facts demand to “think globally and act locally” (Parnell, 2006) to sustain further growth and development of the transitional economy.

According to the results presented in Figure 3.d., it is obvious that highest influence on employees’ overall satisfaction lie on: training system ( $\beta = 0.516$ ,  $p < 0.005$ ) and compensation system ( $\beta = 0.295$ ,  $p < 0.005$ ). This means that organizational learning based on employees training system has dominant influence on motivation of employees in transitional economy. Numerous researches revealed importance of organizational learning (Crossan et al., 1999.; Kim, 1993; Tsai et al. 2007). The SHRM under transition conditions should enable training and compensation systems to avoid managers’ subjective decisions and to increase companies’ performances (Chadwick et al., 2004; Delery and Shaw, 2001).

Considering that human capital is the base of intellectual capital, it should be created through HRM institutionalization within small transitional economy companies. Even large companies in the future wouldn’t be able to work without such systems. HRM development in small transitional economy companies, according to the results presented in this investigation, should be directed toward creating conditions for organizational learning and employees’ development. Positive results from Chinese (Haiyang and Zhang, 2007) and Vietnamese (Thang et al, 2007) transition process further sustain those claims. Establishing environment with potentials to share collective experience and increase overall knowledge, leads to development the modus of understanding common reality (Crossan et

al., 1999).

Considering that managers in transitional economy have important role in achieving company’s goals (Keeley and Roue, 1990; McGree et al, 1995), developing HRM function through HRD and based on organizational learning, should rely less on their experience (McGree et al., 1995) and external connections (Shane and Cable, 2002). Future development should be based on creating knowledge system within company which has special interest for the employees. It is obviously crucial motivation factor for employees’ identification with the company (self-actualization), as highest level of employees’ satisfaction in Maslow’s scale (Maslow, 1943).

Employees’ need respect and care of their superiors. This emits clear message to managers of those companies concerning direction in which they should harmonize relations within it and toward environment. HRM sphere is closely related to knowledge transfer. Results indicate that, when proper communication among people is established, knowledge transfer is implied and happens indirectly (Sparkes and Miyake, 2000). Accordingly, latent communication is becoming dominant (Dyerson and Mueller, 1999). In such conditions, knowledge development and creating collective sense, sustains knowledge transfer in the company (Dougherty, 2001).

Indicated principles for developing HRM function and creating of HRM system (Arthur and Boyles, 2007) in small, same as in large, companies under transition, gives better chances for increased performances of the company at global market. This is only possible if those processes include employees’ motivation as important driving force for increasing their effort and loyalty toward their firm (Lathman and Ernst, 2006).

## РАЗВОЈ МОТИВАЦИОНОГ МОДЕЛА КАО СТРАТЕГИЈА ХРМ-А ЗА МАЛА ПРЕДУЗЕЋА У ТРАНЗИЦИЈИ

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### Извод

Пословање под транзиционим условима је специфично јер се радне операције морају одвијати под значајном неизвесношћу узограничене ресурсе (људске, финансијске, технолошке, итд.). Кључни фактор, потребан за превазилажење ових препрека, унапређењем перформанси компаније, и увођење компаније на глобално тржиште су људски ресурси (ХР). Мотивација запослених је обично један од основних проблема који се јавља док се врши развој људских ресурса у компанији. Истраживања представљена у овом раду, која су спроведена у малим предузећима (мање од 100 запослених) из југоситочне Европе, показала су постоје два нај јача мотивациона фактора за укупно задовољство запослених њиховом компанијом. Ови фактори, који имају могућност осигурања и побољшања позиције запослених у фирми, су обука и систем процене перформанси (систем оцењивања учинка) запослених у фирми.

*Кључне речи:* мотивација, људски ресурси, транзиција, економија, стратегија

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<b>Appendix A.</b>				
Questionnaire used for survey described in the paper				
VAR 01	Are you satisfied with your salary?	1	2	3 4 5
VAR 02	Are you satisfied with the benefits?	1	2	3 4 5
VAR 03	Are you satisfied with superiors care and attention?	1	2	3 4 5
VAR 04	Are you satisfied with your job?	1	2	3 4 5
VAR 05	Are you satisfied with possibility for career development?	1	2	3 4 5
VAR 06	Are you satisfied with compensation system?	1	2	3 4 5
VAR 07	Are you satisfied with training and educational system?	1	2	3 4 5
VAR 08	Are you satisfied with your work/life balance?	1	2	3 4 5
VAR 09	Are you satisfied with your company?	1	2	3 4 5
VAR 10	Are you satisfied with job organization?	1	2	3 4 5
VAR 11	Are you satisfied with workplace conditions?	1	2	3 4 5
very satisfied (5), satisfied (4), no difference (3), dissatisfied (2), and very dissatisfied (1)				