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THE INFLUENCE OF THE REWARD SYSTEM ON LOCAL GOVERNMENT PERFORMANCE: EVIDENCE FROM THE REPUBLIC OF SRPSKA

Summary: *As the main problem to consider in this research is the impact of the reward system based on the basic salary as the dominant form of material compensation on the success of local governments, this paper places the highest emphasis on the specifics of local government in the context of human resource management. The subject of empirical research in this paper were local governments in the Republic of Srpska, and the research was conducted in the period from 2015 to 2019. Appropriate statistical methods were used in the processing of the collected data, while the testing of the hypotheses set forth in this paper was performed with the help of correlation and regression analysis. By applying the above statistical methods, there was not sufficient evidence that was found on the impact of the existing reward system, which is based on the basic salary as the dominant form of material compensation on the success of local self-government. The paper offers a set of guidelines for modeling the reward system in local self-government, which respects the principles of merits and provides recommendations for eliminating the identified shortcomings of the existing reward system. The results of this research contribute to the further progress of the scientific field of human resource management in non-profit organizations, especially in the field of reward systems. Also, the results of this research have a pragmatic value, which is reflected in the practical benefits that local governments can have when creating a reward system.*

Key words: *management of non - profit organizations, human resources management, reward system, local self - government*

JEL classification*: J59, L39, M54*

INTRODUCTION

Modern, profit-oriented organizations recognize the importance of human resource management. By creating an incentive system of rewards, they try to direct the employee behavior and results towards achieving business goals (Duvnjak 2018). However, non-profit organizations such as local governments are very slow to adopt modern principles of human resource management.

Local governments were established with the aim of meeting the needs of citizens and the needs of general interest. To meet these needs, it is necessary to provide significant financial resources. Local governments are financed from their own revenues and other revenues. As employees in local self-government cannot influence the realization of other revenues, local

self-governments should encourage employees to generate their own revenues through an adequate reward system.
Based on the review of available literature, it can be concluded that there is no scientifically based knowledge about the impact of employee remuneration system on the success of local government expressed through the ability to generate own (non-tax) revenues to achieve local government goals and increase local government satisfaction. Therefore, the main scientific problem in this paper can be defined through the question: Does the system of rewarding employees based on the basic salary, as the dominant form of material compensation, have a positive impact on the success of local self-government?
The scientific goals of the research are aimed at gaining new scientific facts and knowledge about the degree of connection between rewarding in local self-government and the realization of one's own income. The main hypothesis claims that the system of remuneration in local self-government based on the basic salary, as the dominant form of material compensation, does not have a significant impact on the success of local self-governments. In accordance with the research question and the set hypotheses, appropriate indicators of local self-government success were identified. The subject of empirical research in this paper were all the local governments in the Republic of Srpska, and the research was conducted in the period from 2015 to 2019. Empirical data were collected from the report on the execution of the budget of local self-government units and data on their number of employees.

1. THEORETICAL ASPECTS OF RESEARCH

1.1. Performance management in local government

The local government performance management system has two tasks (Kent and Haldma 2019). First, it helps local government leadership to take rational action on the principle of efficiency and effectiveness. Second, it meets different values for citizens and other stakeholders, relating to poverty eradication, adequate rural and economic development of local self-government and job creation.
A review of the literature found that the problem of efficiency and effectiveness of performance measurement systems in local government has not been sufficiently studied and published (Kent and Haldma 2019; Alam and Alam 2020; Mättö and others 2020; Rajala and Laihonen and Haapala 2018). Local government leadership should be able to use performance management as a tool to achieve goals (Johanson and Almqvist and Skoog 2019), reduce poor employee performance, and improve service delivery.
The performance measurement system should make it clear to each employee what is expected of him/her, that these expectations should be relevant to the job for which the employee was hired or appointed (Aleksandrov and Bourmistrov and Grossi 2020). Performance expectations, i.e., the expected goals and tasks, should be clear to all employees from the top management, departments and teams to the individual level. Expectations of effects should be stated measurably and standardized.
The performance measurement system should provide performance feedback to easily detect non-compliance problems that require corrective action (Soomro and Shah 2019). Managers and employees must be trained to achieve results. The performance measurement system should be implemented at all levels so that it is part of the organizational culture.
The performance measurement system needs to be integrated with other local government processes (Kaye-Essien 2020; Kloot 1999), such as local government sectors, legislation, norms, standards, size, maturity and structure of local government, and business culture. Performance measurement system management should include a human resource management

strategy, and performance measurement system management policy should be agreed with stakeholders.
Managers should divide the local community development strategy into feasible action plans and tasks (performance expectations) at different levels in the local government and monitor and oversee the management system (Ferreira and Carvalho and Pinho 2020).
It is especially important that management provides resources for efficient performance of tasks, participation in trainings and for motivating employees.

1.2. Reward system in local self-government

There are many challenges faced by local government management, and one of them is the establishment of an appropriate system of rewarding employees that would be in the function of improving the performance of local government (Suwaidi and Rahman 2019). Employee rewarding is one of the most effective motivators for work (Mickson and Anlesinya 2020). The reward system in local self-government is an important activity in human resource management that refers to the determination of money, goods and services that employees receive for the work performed.
Remuneration of local government employees has limitations in the regulations governing this area, in contrast to the private sector, where management has significantly more opportunities to reward employees in accordance with the results achieved. The system of remuneration in local self-government is based on the basic salary, as the dominant form of material compensations, and the amount of the basic salary of employees in local self-government is determined in accordance with laws and bylaws.
Local governments are financed from tax revenues, non-tax revenues, grants and transfers. Employees in a local self-government unit cannot influence the realization of tax revenues, because the amount of these funds depends on higher levels of government. Tax revenues are generally reduced, so that local self-government units must focus on generating their own revenues, in order to be able to fulfill the tasks prescribed by law and bylaws.
There are many classifications of components of the reward system, and one of the most general divisions is into tangible and intangible components of the reward system. When it comes to material rewards, Bahtijarević-Šiber divides them into two basic groups, namely: direct and indirect material rewards. Direct material rewards include a system of salaries and other material benefits to employees, ie bonuses related to individual or group work, while indirect material rewards include a number of material benefits that are obtained by employment in a particular organization (Bahtijarević-Šiber 1999).
In addition to tangible rewards, organizations often allow their employees to receive intangible rewards. Intangible rewards affect the motivation of employees through meeting their needs that are not related to money, such as: meeting the needs of a higher order, the need to respect, respect, confirm and develop personal abilities and other needs.
In the practice of local governments, the system of remuneration based on the basic salary is mainly represented. Jobs of the same or similar complexity are grouped into the same pay grades, regardless of the work results achieved.
Material compensations that are most often used in local self-government are: salary, pension insurance, health insurance, vacations, holidays, paid leave, transportation, various rewards for work, seniority and other occasions, unpaid leave due to family reasons, etc.
Although material compensations are the basis of the motivational system in local self-government, for most employees, higher-order needs, such as development and confirmation, respect and status, are equally important.
Based on the analysis of the reward system in local governments of several European countries, it can be concluded that salaries to employees are mainly determined on the basis of prescribed

job descriptions, which represent the basis for determining salaries (Kuhlmann and Bogumil 2017). It is evident that the local self-governments have not defined norms for performing work, in order to determine which of the employees has done more than they should, in order to determine an adequate reward.
The local self-government should introduce supervision over the work of employees, in order to define the goals and work tasks of employees in a quality and clear way, and in order to monitor the execution of the set tasks in a quality manner. However, in order for the employee to be able to perform the assigned tasks in a quality manner, it is necessary to provide him with continuous education. Also, it is necessary to provide transparent evaluation of employees, based on defined criteria that will be used, which are not subjective in nature. Remuneration of workers in local self-government should be harmonized with financial possibilities and planned funds in the budget (Mikulić 2009).

2. RESEARCH METHODS

From the posed research problem of this paper, two basic research variables can be identified. The independent variable is the reward system, while the success of local governments is the dependent variable.
There is no definition of local government performance on the basis of which universal parameters for comparing local government performance would be determined. In order to get an indicator of the success of local self-government, one must start from the tasks, i.e., affairs of local self-government, namely: Jobs in terms of regulatory actions and management of the municipality and Jobs in terms of providing services. However, in order for local self-government units to be able to perform the tasks defined by legal regulations, it is necessary to provide financial resources through the realized revenues in the budget. Therefore, local governments, in addition to the goals they set in order for service users to be satisfied, must also set goals related to increasing their own revenues. Local government budget revenues consist of: tax revenues, non-tax revenues, grants and transfers. Employees in local self-government cannot directly influence the realization of tax revenues, grants and transfers, but only the realization of non-tax revenues. These tax revenues include: revenues from financial and non-financial assets and foreign exchange gains, fees, taxes and revenues from public services, fines and other non-tax revenues. For that reason, as an indicator of the success of local self-government in this paper, the ability of local self-government to generate its own (non-tax) revenues through efficient work of employees will be observed. Of the four groups of own revenues, employees in local self-government can have the greatest impact on the realization of revenues, which include: revenues from financial and non-financial assets and foreign exchange gains and fees, fees and revenues from the provision of public services. In other words, these two groups of own source revenues represent indicators of the dependent variable.
The budget of the local self-government unit, in addition to budget revenues, also consists of budget expenditures. Budget expenditures are funds spent by local self-government units and consist of current expenditures and budget reserves. Current expenditures include: expenditures for personal income (expenditures for gross salaries and expenditures for gross compensation of expenses and other personal incomes of employees), expenditures for the use of goods and services, expenditures for financing and other financial expenses, subsidies, current capital grants, etc. Given the research problem, expenditures for personal income, more precisely expenditures for gross salaries and expenditures for gross compensation of expenses and other personal incomes of employees are indicators of the independent variable.
In considering and analyzing the relationship between the defined research variables, we started from the assumption expressed by the basic hypothesis (H), which reads: The reward system

based on the basic salary, as the dominant form of material compensation, has no significant impact on local government performance. Two auxiliary hypotheses are set in the paper.
The first auxiliary hypothesis is related to the first indicator of the independent variable, which is the basic salary of employees in local self-government. The first auxiliary hypothesis (H_1) reads: The increase in salaries of employees in local self-government does not affect the efficiency and effectiveness of local self-government property management and the provision of public services, which is reflected in the amount of own revenues. This hypothesis was tested on the basis of the statistical relationship between the observed indicators, expressed by the following relations: the impact of salaries per employee in local government on income per employee, realized on the basis of financial and nonfinancial assets and foreign exchange gains ($H_{1.1}$) and the impact of salaries in local self-government on revenues per employee generated on the basis of compensations, fees and provision of public services ($H_{1.2}$).
The second auxiliary hypothesis is related to the second indicator of the independent variable, ie to the compensation of employees in local self-government. The second auxiliary hypothesis (H_2) reads: The increase in compensation of employees in local self-government does not affect the efficiency and effectiveness of local self-government property management and the provision of public services, which is reflected in the amount of own revenues. This hypothesis was also tested on the basis of the statistical relationship between the observed indicators, expressed by the following relations: the impact of compensation per employee in local government on income per employee, realized on the basis of financial and nonfinancial assets and foreign exchange gains ($H_{2.1}$) and the impact compensation per employee in local self-government on revenues per employee generated on the basis of compensations, fees and provision of public services ($H_{2.2}$).
For the purpose of testing the set hypotheses, empirical data were collected for local self-government units in the Republic of Srpska in the period from 2015 to 2019. Empirical data were collected by downloading the report on the execution of the budget of local self-government units, that were obtained by direct requests for access to information or located on the official websites of local self-government units, as well as by downloading data from the Agency for Intermediary, Information and Financial Services (*in Serbian: Agencije za posredničke, informatičke i finansijske usluge APIF*). Out of 64 local self-government units in the Republic of Srpska, which are the subject of the research, data were collected for 54, while complete data were not available for ten local self-government units, and they were excluded from further analysis.
In order to test the hypotheses, several statistical methods were applied. First of all, a descriptive analysis of the data was performed, which includes the arithmetic mean of the values of the observed indicators, but also the standard deviation that shows the relative deviations of the values of the observed data. A simple correlation analysis was used to examine whether there was a quantitative agreement between the variations of the observed phenomena and, if so, to what extent it was present. For this purpose, the Pearson correlation coefficient was applied. In order to determine the form of the relationship between the system of rewarding employees in local self-government and the success of local self-government, regression analysis was applied. Statistical data processing was performed with the help of the statistical software package SPSS.

3. RESEARCH RESULTS AND DISCUSSION

As pointed out in the previous part of the paper, the research period covers five years, so at the very beginning of data processing there was a dilemma present on whether to test hypotheses individually for each observed year, or collectively for the entire observed period. In order to solve this dilemma, a descriptive analysis was performed, which includes the arithmetic mean

of the values of the observed indicators, but also the standard deviation that shows the relative deviations of the values of the observed data. The results of descriptive data processing showed that in most cases there are large relative deviations of the data. The reason is that the observation period is only five years, which increases the probability of a large deviation of the standard deviation from the arithmetic mean. Although such cases can be excluded from further analysis, their number would significantly reduce the number of local governments that can be analyzed. For this reason, hypothesis testing was performed on the basis of individual data by years, instead of average data for the entire observed period. The results of the hypothesis testing are presented below.

The first auxiliary hypothesis is related to expenditures for gross salaries of employees in local self-government. In the procedure of testing the first auxiliary hypothesis (H_1), the first relationship between the observed indicators of the dependent and independent variable was considered, expressed by the following assumption: and positive exchange rate differences ($H_{1.1}$). In order to establish the degree, shape and direction of correlation of the observed variables, correlation and regression analysis were applied, and the results of these analyzes are shown in the following table.

Table 1. Correlation and regression analysis by years for indicators salary costs per employee and property income per employee (SPSS software package)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
Model Summary - 2015									
1	.298[a]	.089	.071	1716.84162	.089	5.061	1	52	.029[b]
a. Dependent Variable: PI2015 b. Predictors: (Constant), TP2015									
Model Summary - 2016									
1	.469[a]	.220	.205	1738.23930	.220	14.629	1	52	.000[b]
a. Dependent Variable: PI2016 b. Predictors: (Constant), TP2016									
Model Summary - 2017									
1	.486[a]	.236	.221	1416.06938	.236	16.058	1	52	.000[b]
a. Dependent Variable: PI2017 b. Predictors: (Constant), TP2017									
Model Summary - 2018									
1	.398[a]	.158	.142	1510.88835	.158	9.771	1	52	.003[b]
a. Dependent Variable: PI2018 b. Predictors: (Constant), TP2018									
Model Summary - 2019									
1	.369[a]	.136	.120	1942.83530	.136	8.201	1	52	.006[b]
a. Dependent Variable: PI2019 b. Predictors: (Constant), TP2019									

In the case of all observed years, the relationship between the observed variables is not pronounced, meaning that the Pearson's correlation coefficient is very low (2015: r = .298, r <0.50; 2016: r = .469, r <0.50; 2017: r = .486, r <0.50; 2018: p = .398, p <0.50; 2019: p = .369, p <0.50). Furthermore, the coefficients of determination (r2), as well as the corrected coefficients of determination are extremely low in all observed years. The highest coefficient

of determination was established in 2017 (r2 = .236), which means that salary costs per employee determine property income per employee with only 23.6%. Also, in 2017, the largest corrected coefficient of determination was established, in the amount of r2 = .221. The coefficient of determination should be relatively high (r2> 0.50) for the regression model to present an adequate picture of the stochastic relationship between the observed indicators of the dependent and independent variable. Based on the performed analyzes, it can be stated that not enough evidence was found that indicates a significant connection between the observed variables, i.e., not enough evidence was found that confirms the impact of salaries on income from financial and non-financial assets and positive exchange rate differences. Thus, it can be stated that hypothesis $H_{1.1}$ has been confirmed.

Within the first auxiliary hypothesis (H_1), the second relationship between the observed indicators was considered, which is expressed in the form of the following assumption: , fees and public service provision ($H_{1.2}$). Correlation and regression analysis were performed below, and the results of these analyzes are shown in the following table.

Table 2. Correlation and regression analysis by years for indicators wage costs per employee and revenues from services per employee (SPSS software package)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
Model Summary - 2015									
1	.388[a]	.151	.134	9863.26701	.151	9.221	1	52	.004[b]
a. Dependent Variable: PU2015 b. Predictors: (Constant), TP2015									
Model Summary - 2016									
1	.312[a]	.097	.080	9282.12881	.097	5.614	1	52	.022[b]
a. Dependent Variable: PU2016 b. Predictors: (Constant), TP2016									
Model Summary - 2017									
1	.248[a]	.061	.043	9192.62938	.061	3.401	1	52	.071[b]
a. Dependent Variable: PU2017 b. Predictors: (Constant), TP2017									
Model Summary - 2018									
1	.262[a]	.069	.051	9448.39812	.069	3.844	1	52	.055[b]
a. Dependent Variable: PU2018 b. Predictors: (Constant), TP2018									
Model Summary - 2019									
1	.316[a]	.100	.082	10335.38826	.100	5.751	1	52	.020[b]
a. Dependent Variable: PU2019 b. Predictors: (Constant), TP2019									

In all observed years, the relationship between the variables is not pronounced, as evidenced by the height of Pearson's correlation coefficient (2015: r = .388, r <0.50; 2016: r = .312, r <0.50; 2017: r = .248, r <0.50; 2018: r = .262, r <0.50; 2019: r = .316, r <0.50). As with the previously tested hypothesis, the coefficients of determination (r^2) and the corrected coefficients of determination are extremely low in all observed years. The highest coefficient of determination was determined in 2015. Thus, in 2015, the coefficient of determination is r^2 = .388, and the corrected coefficient of determination is r^2 = .134. This means that in 2015,

salary costs determined revenues from services with only 38.8%. Thus, even in the case of this hypothesis, the coefficients of determination are not high enough to be able to claim that the established regression models represent an adequate picture of the stochastic relationship between the observed indicators of the dependent and independent variable. Based on the presented results, it can be concluded that not enough evidence has been found that indicates the connection of the observed variables, in the sense that expenditures for gross wages per employee affect revenues generated from fees, taxes and revenues from public services. Thus, hypothesis $H_{1.2}$ was confirmed.

Both tested relations ($H_{1.1}$ and $H_{1.2}$) showed the absence of the influence of the observed indicators of the independent variable on the observed indicators of the dependent variable. Thus, the first auxiliary hypothesis (H_1) was confirmed, because not enough evidence was found that the increase in salaries per employee in local self-government affects the efficiency and effectiveness of local self-government property management and provision of public services, which reflects the amount of own revenues.

The second auxiliary hypothesis (H_2) is related to expenditures for gross compensation of expenses and other personal incomes of employees (in further analysis, compensation costs) in local self-government. Within the second auxiliary hypothesis, the first relationship between the defined indicators of the dependent and independent variable was tested, expressed by the following assumption: Increase in expenditures for gross compensation of expenses and other personal incomes of employees in local self-government does not affect income per employee difference ($H_{2.1}$). The results of the correlation and regression analysis are shown in the following table.

Table 3 Correlation and regression analysis by years for indicators costs of employee benefits and property income per employee (SPSS software package)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
Model Summary - 2015									
1	.229[a]	.053	.034	1750.51256	.053	2.887	1	52	.095[b]
a. Dependent Variable: PI2015 b. Predictors: (Constant), TN2015									
Model Summary - 2016									
1	.117[a]	.014	.005	1954.17085	.014	.718	1	52	.401[b]
a. Dependent Variable: PI2016 b. Predictors: (Constant), TN2016									
Model Summary - 2017									
1	.280[a]	.078	.061	1555.24295	.078	4.422	1	52	.040[b]
a. Dependent Variable: PI2017 b. Predictors: (Constant), TN2017									
Model Summary - 2018									
1	.208[a]	.043	.025	1610.87793	.043	2.341	1	52	.132[b]
a. Dependent Variable: PI2018 b. Predictors: (Constant), TN2018									
Model Summary - 2019									
1	.095[a]	.009	.010	2081.01820	.009	.472	1	52	.495[b]
a. Dependent Variable: PI2019 b. Predictors: (Constant), TN2019									

The results of these tests are similar to the previous ones. In the case of all observed years, the relationship between the observed variables is not pronounced, ie Pearson's correlation coefficient is very low (2015: r = .229, r <0.50; 2016: r = .117, r <0.50; 2017: r = .280, r <0.50; 2018: r = .208, r <0.50; 2019: r = .095, r <0.50). Also, the coefficients of determination (r^2), as well as the corrected coefficients of determination are extremely low in all observed years. The highest coefficient of determination was determined in 2017. In 2017, the coefficient of determination is r^2 = .078, and the corrected coefficient of determination is r^2 = .061. This means that in 2017, fee costs determined property income with only 7.8%. Thus, the established coefficients of determination are not high enough to be able to claim that the established regression models represent an adequate picture of the stochastic relationship between the observed indicators of the dependent and independent variable. Based on previous analyzes, it can be concluded that not enough evidence has been found that indicates the relationship of the observed variables, in the sense that the increase in expenditures for gross compensation of expenses and other personal income per employee in local government affects income per employee, generated on financial and non-financial assets and foreign exchange gains. This confirmed hypothesis $H_{2.1}$.

Within the second auxiliary hypothesis (H_2), another relationship between the defined indicators of the dependent and independent variable was considered, which is expressed by the following assumption: realized on the basis of fees, charges and provision of public services ($H_{2.2}$). Analogous to the applied procedure of testing the previous hypotheses, correlation and regression analysis was performed. The results of these analyzes are shown in the following table.

Table 4 Results of correlation and regression analysis by years for the indicators costs of employee benefits and revenues from services per employee **(**SPSS software package)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
Model Summary – 2015									
1	.643[a]	.414	.402	8195.74097	.414	36.667	1	52	.000[b]
a. Dependent Variable: PU2015 b. Predictors: (Constant), TN2015									
Model Summary - 2016									
1	.258[a]	.067	.049	9438.48262	.067	3.721	1	52	.059[b]
a. Dependent Variable: PU2016 b. Predictors: (Constant), TN2016									
Model Summary - 2017									
1	.473[a]	.224	.209	8359.56613	.224	14.993	1	52	.000[b]
a. Dependent Variable: PU2017 b. Predictors: (Constant), TN2017									
Model Summary - 2018									
1	.525[a]	.275	.261	8335.27415	.275	19.755	1	52	.000[b]
a. Dependent Variable: PU2018 b. Predictors: (Constant), TN2018									
Model Summary - 2019									
1	.491[a]	.241	.226	9490.65436	.241	16.489	1	52	.000[b]
a. Dependent Variable: PU2019 b. Predictors: (Constant), TN2019									

In the case of all three observed years, correlation analysis indicates a low degree of correlation between the observed variables (2016: r = .258, r <0.50; 2017: r = .473, r <0.50; 2019: r = .491, r <0.50). This relationship is moderate in the case of 2015 (r = .643, r> 0.50) and 2018 (r = .525, r> 0.50). Given the slightly higher correlation coefficient, in 2015 the highest coefficient of determination appeared, i.e., the corrected coefficient of determination. Thus, in 2015, the coefficient of determination is r^2 = .414, and the corrected coefficient of determination is r^2 = .404. This means that in 2015, the cost of fees determined revenues from services with 41.4%. In all other observed years, the coefficients of determination, as well as the corrected coefficients of determination are significantly lower. Overall, the established coefficients of determination are not high, i.e., it can be said that they are not high enough to claim that the established regression models represent an adequate picture of the stochastic relationship between the observed indicators of the dependent and independent variable. Therefore, even in this case, sufficient evidence was not found to be able to confirm with certainty the impact of the cost of compensation per employee on income from services per employee. Therefore, hypothesis $H_{2.2}$ is accepted.

Both tested relations ($H_{2.1}$ and $H_{2.2}$) did not offer sufficient evidence of the influence of the independent variable on the observed indicators of the dependent variable. Therefore, the second auxiliary hypothesis (H_2) is accepted, because not enough evidence has been found that the increase in compensation of employees in local self-government affects the efficiency and effectiveness of local self-government property management and provision of public services, which reflects the amount of own revenues.

Overall, in 18 of the 20 models tested, the correlation coefficients were very low (r <0.50). Also, the coefficients of determination are extremely low in all observed relations. The highest coefficient of determination was established in 2015 for hypothesis $H_{2.2}$ and is r^2 = .414. Thus, we can conclude that the realization of income from property per employee and income from public services per employee is less affected by the cost of wages per employee and the cost of benefits per employee, while other factors affect almost 60%.

Based on the presented test results, it can be concluded that both auxiliary hypotheses (H_1 and H_2) were accepted. Given this outcome of testing auxiliary hypotheses, it can be stated that the main hypothesis (H) is also accepted. In other words, one can accept the view that the system of remuneration based on the basic salary, as the dominant form of material compensation, does not have a significant impact on the success of local governments.

CONCLUSION

In the system of remuneration in which the basic salary is the backbone of the material remuneration of employees, the management of the local self-government has limited possibilities for the application of incentives, which are supplements to the basic salary. Sometimes normative acts do not represent the main obstacle for this type of rewarding employees. For example, in the Republic of Srpska, formally, there is a possibility of rewarding an employee who performs his duties in accordance with the requirements of management and who is positively evaluated for his work. However, although the normative acts prescribe that the salary of employees is increased, among other things, up to 15% based on special work results, in practice these funds are usually not planned in the budget of the local self-government unit, due to lack of funds. In cases where there are planned financial resources for this purpose, incentives are not related to the performance, i.e., the actual results of employees, but the rewarding of individual employees is often done on the basis of subjective evaluation. This way of stimulation negatively affects the motivation of employees who perform their work tasks well.

The biggest shortcoming of the traditional reward system based exclusively on the basic salary, which is guaranteed to all employees regardless of their work performance, is reflected in the complete absence of responsibility of employees for poor performance and success of local government as a whole. The process of evaluating the performance of employees also contributes to this, which takes place exclusively in order to satisfy formal procedures, and not in order to direct the behavior and results of employees towards achieving the goals of local self-government. On the other hand, the application of different modalities of the performance-based reward system in a large number of Western countries has not yielded the expected results. The main disadvantage of this reward system is that it leads to a disproportionately higher increase in the cost of salaries and benefits to employees in relation to the benefits it generates. The suspicion that the introduction of such a reward system in the local self-governments of post-socialist countries would create positive effects on the success of local self-governments is especially emphasized.

Consideration of the optimal model of the reward system is further complicated by the fact that there is no universal model of the reward system applied by all local governments, because the representation of certain forms of tangible and intangible rewards should be in line with local government policies and available budget funds.

The obtained research results can provide a significant contribution to empirical knowledge in this area. This research analyzes the existence of a cause-and-effect relationship between the reward system and the success of local governments, which is a completely new way of defining the success of local government. The knowledge gained in this paper will expand the theoretical knowledge about the impact of the reward system on the success of local self-government and will be the basis for further research in this area. This research model can be used to repeat research in the Republic of Srpska, for the purpose of continuous monitoring of the relationship between the reward system and the success of local self-government. Also, this research model can be used to conduct comparative research in the Federation of Bosnia and Herzegovina, but also in other countries in the immediate and wider environment.

The analysis of the collected data, which were used in this research, yielded results that represent new facts and knowledge about the impact of the reward system on the success of local self-government in the Republic of Srpska.

Pragmatic goals are reflected in the practical benefits that local governments, as well as the academic community, can benefit from this work. When it comes to local self-government, the pragmatic benefit of this paper is reflected in the possibility of using the knowledge gained in this paper in making specific decisions, which relate to the establishment of a more adequate reward system. The academic community can also benefit from this paper because the obtained results represent the starting point for further research in the field of human resource management in local governments. Also, this paper contributes to the promotion of an extremely current issue, and that is the professionalization of local governments, not only in the field of rewarding employees, but also in other segments of human resource management.

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