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ARTICLE

The Relationship between Employees' Well-Being and Economic Performance in Serbia

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ABSTRACT

The importance of employees' well-being has grown because it affects productivity, satisfaction, mental health, company reputation, and legislation in developed economies. Previous studies show that psychological safety is vital for innovative decision-making and entrepreneurial behavior. This paper investigates the relationship between employees' well-being and economic performance in a transition economy. Serbia serves as a case study. The sample included 3050 employees from 100 Serbian companies across all industries. The research used a mixed-method approach. Quantitative data were analyzed with statistical methods. In-depth insights were gained through semi-structured interviews with 75 Human Resource managers. The results reveal that psychological safety and engagement affected profitability, productivity, retention, and innovation output. Absenteeism was higher when stress levels were higher. They reduce profitability and productivity by draining focus and motivation. Work-life balance improves economic performance by increasing satisfaction and reducing turnover. By recognizing psychological safety, stress, and work-life balance as key factors, this study sheds light on behavioral economics in a transition environment. These psychological mechanisms—empowering safe risk-taking, managing stressors, and supporting work-life balance—are critical determinants of economic outcomes at multiple levels. In Serbia's changing market, investing in employees' well-being should be seen as a way to improve social welfare. Maintaining progress and adjusting to an increasingly complex organizational landscape requires ongoing research

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and innovative policy. Policy recommendations aimed at fostering this psychological mechanism will be discussed to inform strategic initiatives.

Keywords: Employees' Well-Being; Psychological Safety; Economic Performance; Regression Model; Serbia

1. Introduction

Employee well-being strongly shapes organizational performance in modern business settings. Employers and researchers generally agree that employees' mental, emotional, and physical health shapes their productivity, their capacity to generate new ideas, and the financial results of their work. Serbia is a transition economy with changing labor markets and workplace cultures, and it offers a clear example of these dynamics. In this context, this study proposes a framework for examining employee well-being and its relation to the financial performance of Serbian enterprises. Psychological safety is a key condition for innovation and entrepreneurship because it allows people to share ideas, raise concerns, and learn from mistakes without fear of negative social consequences. It allows employees to share ideas more openly and may reduce concern about being criticized. In this setting, people are more willing to take risks and propose ideas that do not follow standard approaches, which can support the development of new solutions. Trying out new approaches can encourage employees to take initiative and act in ways that reflect entrepreneurial behavior at work. Encouraging innovation, rather than reinforcing a fear of failure, supports the development of new solutions. In some administrative settings, fear of making mistakes can lead to hesitation and delays in decision-making. Psychological safety can reduce this pattern by supporting open, candid communication where staff can raise concerns and share ideas without fear of blame. In organizations that view uncertainty as a chance to learn and mistakes as useful information, common practices include open forums, structured feedback routines, and group decision-making that includes a range of members. Wide participation brings in different viewpoints, which can help organizations spot groupthink and related risks early. Together, these practices support entrepreneurship by bringing different perspectives into the discussion and helping develop a wider range of business ideas. This pattern is especially clear in organizations that encourage open communication between junior staff and senior leaders. In settings where knowledge sharing is established, customer service representatives can offer useful information about new consumer needs and changing market threats. Information tends to move more smoothly across departments when staff feel safe to speak up, ask questions, and report concerns without fear of blame or punishment. Experimental work is the main basis for innovation.

Psychological safety allows employees to present ideas, try them in practice, and revise them without fearing punishment or blame. Rapid trials support strategic development and help organizations adapt to changing conditions. Lean start-ups commonly use this approach and treat failure as a source of learning. Teams that hold reflective discussions and apply what they learn tend to strengthen their organizational skills and build resilience over time. Employee autonomy supports the early stages of new venture creation because it allows staff to act quickly when new business opportunities arise. Autonomy is supported by a psychologically safe workplace where staff can take initiative and make decisions without needing approval at every step. In changing business settings, organizations often need quick decisions and timely investment of capital to achieve strong performance. In psychologically safe workplaces, managers support employees by providing needed resources and removing barriers, which can encourage collaboration across departments. When employees do not expect judgment or to be seen as incompetent, they are more likely to ask for help and share information openly.

Cross-functional teams (CFT) may disagree about priorities, yet psychological safety supports open and productive discussion across departments and functions. New ventures commonly face practical challenges during their early stages. Psychological safety supports resilience by helping organizations manage these difficulties with clearer communication and steadier decision-making. It allows constructive self-critique that supports personal development while preserving positive relationships with others. Psychological safety

lowers the risk of average performance and supports an organizational culture that takes psychological needs seriously. Feedback given in a psychologically safe setting should be clear, timely, and focused on what can be improved in future work. This clarity helps individuals identify areas for improvement and make the needed adjustments. Targeted feedback helps entrepreneurial teams build skills faster and reduces the time needed to learn new tasks. Innovation often starts when a team can propose possible solutions without early criticism. When psychological safety is present, members are more willing to share new ideas because they do not expect blame or ridicule. When psychological safety is high, team members build on one another's ideas and tend to produce better solutions. In teams with high psychological safety, idea-generation sessions tend to be more productive because participants judge ideas on their content rather than on the person. This competency-based approach draws on the organization's intellectual capital as a whole.

Additionally, because entrepreneurial activities require sustained motivation, psychological safety helps maintain high levels of team engagement.

In psychologically secure environments, employees perceive their work as meaningful, which promotes professional growth. Intrinsic motivation in these settings is more sustainable than reliance on external rewards. When employees feel secure, they are more likely to engage fully in challenging roles and invest additional effort. This level of dedication is particularly important for the success of start-up ventures.

Leaders play a pivotal role in establishing psychological safety to foster innovation. Effective leaders demonstrate vulnerability, acknowledge mistakes, permit dissent, and reward early identification of problems. Performance management systems differentiate between prudent and reckless risk-taking. Surveys are used to monitor levels of psychological safety. Managers are responsible for ensuring progress, and leadership training programs instruct them to respond constructively to employee risk-taking.

In summary, agents in behavioral economics exhibit a broader range of human emotions than those in traditional finance models. Psychological safety, stress, and work-life balance all strongly influence economic behavior.

Employees rely on psychological safety to assess workplace risks and rewards. In psychologically safe environments, they are more likely to voice opinions, share ideas, and network with colleagues.

This dynamic is significant because it affects economic performance: employees may either contribute their intellectual capital to collective activities or withhold it due to fear of sanctions.

Emotional expectations influence how employees perceive cooperation. Employees are more likely to cooperate when the perceived benefits outweigh the potential costs, such as feelings of vulnerability.

Job-related stress is a psychological factor that constrains cognitive abilities in economic decision-making. High stress reduces mental capacity by limiting the time available for decision analysis. Stressed employees tend to focus on short-term problems and neglect long-term planning, which requires sustained attention.

Stress lowers risk tolerance and diminishes initiative. Stressed employees tend to act conservatively rather than pursue new opportunities. This attitude inhibits growth and the pursuit of excellence through new experiences.

Chronic stress can influence workplace decision-making by exacerbating tendencies toward hyperbolic discounting and loss aversion. Hyperbolic discounting refers to the preference for smaller, immediate rewards over larger, future rewards[1]. Under chronic stress, this preference intensifies, leading employees to make short-sighted decisions that prioritize immediate relief over long-term benefits. The loss aversion, a central concept in Prospect Theory, suggests individuals are more sensitive to losses than to equivalent gains[2]. This bias in the Serbian organizational culture is typically observed in situations where there is a high uncertainty avoidance index. In such a situation, employees are likely to prefer maintaining their current job security rather than pursuing better-paid jobs.

Stress amplifies this aversion, causing individuals to avoid risks with potential losses, even when potential gains may outweigh the risks. Collectively, these tendencies highlight the importance of creating workplace environments that reduce stress to promote better decision-making[3].

Work-life balance significantly influences how individuals allocate their limited cognitive and emotional resources across different life domains. A loss of balance leads to cognitive interference, in which occupational thoughts intrude into personal time and vice versa.

Perceptions of work-life balance significantly affect economic behavior by influencing time-preference decisions and future-oriented actions. Individuals who perceive balance are more likely to engage in long-term planning and skill-building activities, which require short-term sacrifices to achieve long-term gains.

These interconnected psychological factors collectively influence the degree of economic autonomy employees experience within organizations. Cognitive factors, such as attentiveness, memory, and self-regulation, interact with affective factors, such as anxiety, confidence, and intrinsic motivation, to shape behavioral outcomes. These outcomes affect everyday decisions, including idea generation, assuming additional responsibilities, and overcoming challenges.

Proactivity in contemporary knowledge work is grounded in psychological factors that underpin self-directed activities. Employees must cultivate intrinsic motivation, overcome fear of failure, and maintain focus amid competing demands. Psychological safety, stress levels, and work-life integration are central to sustaining emotional resilience.

Framing these factors as psychological processes demonstrates that economic activity in organizations extends beyond mere responses to external incentives and is rooted in internal mental processes. The same financial reward or opportunity may elicit different reactions depending on an individual's psychological state. For example, a stressed employee may decline a valuable opportunity that a less stressed colleague would accept. In insecure environments, innovation is withheld, whereas in supportive environments, it is readily shared.

This approach identifies a set of psychological factors that mediate the relationship between organizational characteristics and economic outcomes. These factors represent the 'black box' that transmits influences from the work environment to productivity, innovation, and performance. A deeper understanding of this process enables more accurate predictions regarding the effects of changes in work design, management practices, or organizational culture on employee behavior and, ultimately, economic outcomes. By acknowledging psychological safety, stress, and work-life balance, this study highlights the underpinning dimensions of behavioural economics and recognizes the influential cornerstones of psychology, particularly in emotionally charged contexts.

This paper integrates insights from psychology, behavioral economics, finance, and organizational behavior to develop a comprehensive approach to employee well-being. The proposed framework advocates for context-specific Key Performance Indicators (KPIs) that reflect the unique circumstances of individual organizations while leveraging modern technological capabilities. These KPIs are expected to influence not only individual firms directly but also industry conditions and national economic metrics indirectly.

The research methodology relies on statistical methods. Regression and correlation analyses will explain the relationship between employee well-being KPIs and financial metrics. Based on both qualitative and quantitative data, a set of KPIs for employee well-being has been identified, including psychological safety, work engagement, stress levels, and participative innovation, as well as indicators of economic performance such as productivity, employee tenure, innovation, and revenue.

The paper is organized as follows: the next section presents a brief literature review. Following that, a chapter explains the selection and operationalization of KPIs and economic variables. The third section presents the results, detailing the statistical findings. Finally, the discussion focuses on organizational and individual development, the causes of institutional issues that could lead to social and political change, and concludes with recommendations for further research and practical interventions.

2. Literature Review

To better understand decision-making processes, behavioral economics incorporates psychological insights into economic models [1–4]. This method offers a more complex understanding of human behavior while challenging the conventional economic assumption of rational actors [5–7].

Prospect Theory was developed in order to comprehend decision-making under risk [2]. It suggests that people make decisions that differ from those predicted by expected utility theory because they assess potential gains and losses in different ways. This seminal study emphasized how cognitive biases influence economic behavior [2].

The idea of "nudging" entails creating options that affect people's choices without limiting their autonomy. This strategy has been widely used in public policy to promote

positive behaviors, like raising savings rates and encouraging healthier lifestyles [3].

The integration of behavioral insights into public policy has been a significant contribution of this literature. By recognizing the limits of human rationality, policymakers can design interventions that better align with actual decision-making processes, thereby improving policy outcomes in areas such as retirement planning and labor supply [4].

Behavioral economics has significantly advanced the understanding of decision-making processes in labor settings [5–7]. The key concepts, such as heuristics, present bias, and fairness concerns, are critical in shaping labor market dynamics.

The role of heuristics refers to cognitive shortcuts individuals use to make complex decisions more manageable [5]. In labor settings, these heuristics can lead to biases such as overconfidence and status quo bias, affecting hiring and promotion decisions and, in turn, impacting organizational efficiency and fairness.

Present bias refers to a tendency in which individuals disproportionately value immediate rewards over future benefits [6]. This bias can influence employee behavior, leading them to prefer immediate compensation over long-term benefits, thus affecting savings behavior and job satisfaction in the workplace.

Focus on fairness in labor markets, emphasizing that perceptions of fairness in wage distribution and working conditions are crucial to employee motivation and productivity. Their research suggests that addressing fairness concerns can lead to positive economic outcomes, such as improved employee morale and reduced turnover [7].

These foundational studies highlight the importance of integrating behavioral insights into economic models to better understand the complexities of labor market dynamics. By considering psychological factors, policymakers and organizations can design more effective interventions to enhance workplace efficiency and employee well-being.

The evolution of frameworks designed to bolster well-being has also progressed substantially [8–10]. These frameworks have historically placed greater priority on occupational health and safety, but more recent iterations have expanded to include concepts such as autonomy, work-life integration, and participatory decision-making [8, 11, 12]. Psychological safety has been shown to be associated with increased employee creativity and innovation in previous studies [13]. Psychological safety accounts for 47% of the variance in creativity, according to a quantitative study with 180 participants. It also showed strong associations with risk-taking tendencies ($r = 0.72$, $p < 0.01$) and open communication of ideas ($r = 0.65$, $p < 0.01$).

According to these findings, workers who feel psychologically secure are more inclined to suggest new ideas and participate in exploratory activities that are essential to promoting innovation [13]. There are several ways in which psychological safety and creative work practices are related. Both direct ($\beta = 0.3973$, $p < 0.01$) and indirect ($\beta = 0.2239$) effects of psychological safety were found to partially mediate the relationship between innovative work behavior and an ambidextrous organizational culture in the IT sector [13]. This implies that companies that want to foster innovation should actively support the psychological environment that enables staff members to follow their creative impulses as well as the structural circumstances that encourage creativity.

Error risk-taking is a key mechanism that links psychological safety and innovation. Error risk-taking has been identified as a major mediating factor in the positive relationship between psychological safety and innovative work behavior [14]. The mediated relationship between innovative behavior and psychological safety through error risk-taking is further reinforced in the presence of a strong organizational innovation climate. According to this model of moderated mediation, psychological safety creates an atmosphere in which workers feel comfortable trying new things and possibly failing, a crucial component of groundbreaking inventions.

Psychological safety has a direct impact on team-level performance outcomes and also acts as a mediating factor. The association between innovative behavior, team performance, and entrepreneurial passion is mediated by psychological safety, according to research done in startup settings [15]. This emphasizes how crucial it is for businesses, especially startups, to prioritize creating psychologically safe work environments to fully utilize the creative and driven potential of their employees.

Through communication behavior, team psychological safety acts as a mediator and has a major impact on employee innovative performance [16]. Innovative performance is significantly and favorably influenced by the components

of team psychological safety, including team collaboration and understanding, team information sharing, and a balanced exchange among team members. This multifaceted conceptualization highlights that proactive and cooperative processes are also part of the concept of psychological safety, which is not limited to the absence of interpersonal risk.

To support strategic management procedures and decision-making, psychological safety is essential [17]. Organizations gain from increased creative idea generation, more effective decision-making, and enhanced problem-solving skills within strategic management teams when people believe it is safe to share different points of view. This creates a positive environment that encourages risk-taking and involvement, leading to increased trust and unity within the team. The effect on leadership decision-making, in particular, demonstrates how psychological safety shapes leaders' perceptions and information processing, which, in turn, influences their inclination to make audacious, creative decisions [18]. Psychological safety is especially important in situations of organizational change and uncertainty, as it helps leaders make decisions that spur innovation and navigate ambiguity.

Psychological safety is another lens through which the relationship between spiritual leadership and intrapreneurial behavior functions, with perceived organizational support serving as a moderator [19]. This suggests that different leadership styles can foster psychological safety, which, in turn, encourages workers to participate in entrepreneurial endeavors that support company goals. Employees' entrepreneurial behaviors in well-established organizations are directly impacted by psychological safety [20]. Empowering leadership has been shown to promote employees' entrepreneurial behaviors (risk-taking, proactiveness, and innovation) through improved person-job fit, which in turn leads to the development of role-breadth self-efficacy and meaningful work [21]. According to this serial mediation model, psychological safety, fostered by empowering leadership, provides the foundation for employees to participate in entrepreneurial endeavors.

By encouraging knowledge sharing and reducing knowledge hiding, psychological safety boosts employee creativity [22]. These relationships are moderated by the organizational safety climate, which increases the beneficial effects of psychological safety on information sharing. This highlights how psychological safety not only encourages people to share their thoughts but also makes it easier for the teamwork necessary to turn those thoughts into real innovations.

The impact extends to voice behavior, where psychological safety and perceived voice efficacy serve as pertinent mediating mechanisms for the implementation of innovation [23]. When employees feel psychologically secure, they are more inclined to voice improvement-oriented suggestions, which organizational leaders can subsequently leverage to drive innovation.

The degree to which psychological safety, innovation, and entrepreneurial behavior are related is influenced by several contextual factors. Both the mediated pathway through psychological safety and the positive association between innovative work behavior and taking risks with errors are strengthened by an organizational innovation climate [23]. This implies that, to optimize innovative outcomes, formal organizational structures and informal psychological conditions must be in harmony.

Additionally, cultural factors have a big impact. In multicultural environments, psychological safety serves as a mediating mechanism for leaders' cultural intelligence, encouraging creative work practices [24]. The importance of psychological safety is universal across cultural contexts, as evidenced by employees' increased willingness to take risks and participate in creative activities when they perceive a psychologically safe environment within diverse teams. These relationships are also moderated by individual differences. The relationship between employees' improvisational behavior and the innovative climate of their organizations is strengthened by creative self-efficacy [25]. In a similar vein, risk-taking characteristics moderate the association between bootleg innovation behavior and psychological safety [26]. These results show that although psychological safety creates the conditions required for innovation, the extent to which employees react to these conditions depends on their personal traits.

Research has also identified important limits and possible drawbacks of psychological safety in particular situations. The association between moral potency and peer reporting intentions is surprisingly attenuated by psychological safety in demanding work environments, such as firefighting units [27]. This suggests that the advantages of psychological safety

might vary depending on the situation, with distinct dynamics at work in high-risk environments compared to regular ones. Additionally, the association between psychological safety and unethical team behavior shows that when teams have utilitarian ethical orientations, high psychological safety levels may, in some circumstances, encourage group participation in unethical decisions[28]. This highlights how crucial it is to combine psychological safety with strong ethical frameworks to ensure that risk-taking behaviors remain beneficial and consistent with organizational values.

In post-socialist Serbia, cultural dimensions such as high power distance and high uncertainty avoidance significantly shape how psychological safety operates. A legacy of hierarchy and centralized power means questioning authority can be seen as disloyal or disruptive, making employees hesitant to voice concerns directly. High uncertainty avoidance reinforces this, as ambiguity and unpredictable outcomes are stressful, leading to adherence to established norms and to the avoidance of risks associated with dissent. High power distance in Serbia's national culture means that the unequal distribution of power is accepted by all members of society and organizations within it as natural, efficient, useful, and the only possible. In such a culture, it is expected that the leader or a small group at the top makes all decisions, while other members of society and organizations only carry them out[21].

New technologies, such as passive sensing and emotion AI, enable real-time data on employees' physical, behavioral, and emotional states[29–31]. However, technology-driven data can not replace empirical studies. Observations at companies' facilities and interviews are still necessary to obtain all the important information about employees' well-being. These changes allow for evaluations on a sliding scale, from employee-reported job satisfaction and perceived support to hard metrics such as stress indicators, sleep patterns, and communication styles.

The higher motivation and lower absenteeism are associated with employees' well-being[32]. Therefore, companies with positive employee field performance had better financial performance[33–37].

Employee well-being positively affects creativity, leading to increased output and the generation of new ideas. Organizations that prioritize well-being typically experience higher employee retention, lower turnover costs, and an enhanced organizational reputation[38]. Effective communication and trust are particularly important for remote teams[34].

The study identified both positive and negative effects of remote work on work-life balance, including increased loneliness[28]. Additionally, the implementation of emotion AI raises concerns regarding privacy and oversight. If these issues are not addressed transparently, organizational trust may be undermined[28].

Workplace democracy impacts employees' well-being[39]. Open communication and a decentralized decision-making process led to higher satisfaction, engagement, and psychological well-being. Moreover, lower abstention and greater adaptability to change have been observed in democratic workplace environments.

A prior study highlights the importance of validity and safety in assessing employee well-being[38]. Implementing these characteristics in organizations encourages open discussion and supports well-being. The study results showed that the aforementioned characteristics have facilitated honest conversations and accelerated organizational change.

A study revealed that passive sensing and emotion AI have a positive effect on employees' well-being[30, 31]. Passive sensing collects data on employees' stress, emotions, sleep habits, and activity levels. These data were assessed by emotion AI systems, and employees received feedback.

Studies indicate that employees did not express concerns about monitoring systems when managers provided personalized feedback or rewards[40]. Nevertheless, issues related to privacy and data usage persist. The effectiveness of such systems depends on organizational trust.

The passive sensing can detect stress levels and employees' productivity[30, 31]. Data collection by using new technology must respect personal dignity, work autonomy, and ethical standards.

Events such as hackathons can enhance creativity in product development processes[32]. These events enabled employees to learn new skills through teamwork, on the one hand. On the other hand, hackathons can cause greater stress when expectations are unclear.

Remote work has both positives and negatives for employees' well-being[39]. The flexibility and more personal freedom have a positive impact. However, communication, trust, and employee engagement may negatively impact productivity[33, 35, 39].

The results of a longitudinal study showed that employees' well-being can simultaneously comprise both positive and negative states[41]. Sector-specific studies implied mainly positive results[42–46]. Cross-sectional studies showed a stronger relationship between employees' well-being and organizational performance than longitudinal studies[47].

The issues of employees' well-being gained more interest during and after the crisis[48–52].

Practical aspects of empirical studies on employees' well-being can be summarized as guidelines for good practice[53].

The following hypotheses will be tested:

H1. *Higher levels of psychological safety (PSI) and employee engagement (ES) contribute to economic performance.*

H2. *Higher employee stress levels (SI) result in higher absenteeism rates, which have a detrimental impact on business productivity and profits.*

H3. *Increased involvement in innovation-related activities (IPR) boosts productivity and profits and has a positive impact on innovative output.*

H4. *Better financial performance is predicted by higher communication quality (CQI) within organizations.*

H5. *A better work-life balance (WLBS) moderately correlates with improved economic outcomes for companies (r from 0.3 to 0.5).*

To explore the multifaceted nature of employee well-being through qualitative insights gathered from semi-structured interviews with human resource managers, this study proposes:

P1. *Management support has a positive effect on job satisfaction.*

P2. *Employee feedback mechanisms contribute to the development of well-being initiatives.*

P3. *Identify effective strategies for engaging employees in well-being programs.*

3. Research Context

Since 2000, Serbia has embarked on a significant economic transition. This has involved extensive reforms to liberalize the market, privatize state-owned companies, and create a more favorable environment for private investment. However, applying well-being practices from developed economies in a transition environment like Serbia can be challenging. Some of the main challenges include insufficient financing, lack of tools, technological issues, and the prevailing organizational culture in Serbian companies. Despite these challenges, there are also opportunities, such as the rise of international businesses, improvements in the IT sector, and growing awareness of international best practices. These contextual factors provide a critical foundation for formulating and examining the study's research questions, which investigate how psychological safety, stress, and work-life balance, as dimensions of employee well-being, interact with economic performance indicators in Serbian companies. The intersection of Serbia's transitional environment with the selected well-being and performance metrics enables the present research to examine whether relationships established in other economic contexts hold in Serbia and to identify unique challenges or mediators that emerge in this setting. In fact, studies have shown a direct positive effect of high work involvement on employees' well-being in the IT sector in Serbia[43, 44], further justifying the focus on analyzing specific employee well-being factors in relation to organizational outcomes. Thus, the research context not only situates the present investigation within Serbia's transitional economy but also directly informs the scope and relevance of the research questions and hypotheses.

4. Methodology

The sample comprised 3050 employees from 100 companies representing all major industry sectors in Serbia. Companies were selected based on industry relevance and financial performance. Of the 100 companies, 40 were from manufacturing, 17 from services, 16 from retail, 7 from transportation, 6 from IT, 6 from healthcare, 6 from construction, and 2 from oil and gas. Most companies (60 companies) were large (over 100 employees), 20 were medium-sized, and 20 were small enterprises. Seventy-five companies had human resources (HR) departments, and HR managers were contacted to arrange meetings. Internal contacts were used to enhance the response rate and collect relevant qualitative data. HR managers assisted in identifying employees willing

to participate. The final sample was gender balanced, and the response rate was 89%.

This study employed a mixed-methods approach, combining qualitative data with quantitative statistical modeling. The main objective was to model the relationship between financial performance indicators and employee well-being KPIs in Serbian organizations using regression and correlation analysis.

Qualitative data obtained through semi-structured interviews with Human Resource (HR) managers to gain in-depth insights:

- Evaluation of well-being programs: How do you assess the effectiveness of current well-being programs? What metrics or KPIs are used in the evaluation process?
- Integration of Behavioral Economics: How does your company incorporate principles of behavioral economics, such as nudging, into well-being initiatives to enhance employee decision-making and reduce stress-related biases?
- Dynamic nature of well-being: In what ways does your company address factors such as job stressors and the work-home interface?
- Managerial Role and Influence: How do you perceive the role of management in supporting psychological well-being?
- Challenges in promoting well-being: What are the significant challenges faced by you (HR manager) in promoting employees' well-being?
- Sustainability and well-being: How do you align employees' well-being initiatives with sustainability goals?
- Future directions: What innovation do you foresee in the field of HR that could impact employee well-being?

These questions are designed to elicit comprehensive and nuanced responses from HR managers, facilitating a deeper understanding of the strategies and challenges involved in promoting employee well-being. Each interview lasts 30 min. Researchers interviewed 75 HR managers in the sample.

Authors confirm that the research was conducted in accordance with the principles of the Declaration of Helsinki, revised in 2013, and approved by the Ethics Committee of University MB. Formal ethical approval was obtained prior to the study (EO-005/25 from 31.1.2025). Written informed consent was obtained from all participants involved in the study.

4.1. Operationalization of Variables

The key performance indicators (KPIs) for employee well-being include the following:

1. Psychological Safety Index (PSI)
   - Instrument: Edmondson's Psychological Safety Scale[54]
   - Measures: Attitude towards risk and failure, Openness of conversations, Inclusion within teams, Willingness to help colleagues
   - Scoring: Composite score based on responses to items covering these four aspects, using a Likert scale (e.g., 1 to 7)
2. Engagement Score (ES)
   - Instrument: Utrecht Work Engagement Scale (UWES-9)[55]
   - Measures: Motivation and job satisfaction
   - Scoring: 7-point frequency scale from never to always
3. Stress Index (SI)
   - Instrument: Perceived Stress Scale (PSS-10)
   - Measures: Subjective stress levels, Sleep quality
   - Scoring: Sample items (5-point scale from never to very often)
4. Innovation Participation Rate (IPR)
   - Instrument: Organizational records
   - Measures: Percentage of employees participating in innovation activities such as hackathons, idea challenges, or innovation workshops
   - Scoring: (Number of participating employees/Total employees) × 100
5. Communication Quality Index (CQI)
   - Instrument: Communication Satisfaction Questionnaire (CSQ)
   - Measures: Peer feedback frequency and quality, Usage of employee voice systems, Frequency, openness, and usefulness of communication channels
   - Scoring: Composite index based on survey re-

sponses

6. Work-Life Balance Score (WLBS)
   - Instrument: Work-Life Balance Scale [56]
   - Measures: Employee perceptions of balance between work and personal life, with attention to remote work challenges
   - Scoring: Likert-scale-based composite score (7-point agreement scale)

Economic Performance Measures:

7. Productivity (PROD)
   - Instrument: Financial records
   - Measure: Revenue per employee
   - Calculation: Total revenue/Number of employees
8. Employee Retention Rate (RR)
   - Instrument: HR records
   - Measure: Percentage of employees retained annually
   - Calculation: (Number of employees retained at year-end/Number of employees at start of year) × 100
9. Innovation Output (IO)
   - Instrument: Company innovation records
   - Measure: Number of new products, services, or process improvements initiated in 2024
10. Profitability (PROF)
    - Instrument: Financial statements
    - Measure: Net profit margin
    - Calculation: (Net profit/Total revenue) × 100
11. Absenteeism Rate (AR)
    - Instrument: HR attendance records
    - Measure: Average days absent per employee in 2024
    - Calculation: Total absent days/Number of employees

4.2. Data Collection

The economic performance numbers are taken from companies' reports and industry statistics, while survey data on PSI, ES, SI, CQI, and WLBS are collected from company records and semi-structured interviews with Human Resource managers. The research took place in companies' facilities from February to April 2025.

4.3. Data Processing

The statistical methods used are as follows:

- Descriptive statistics included the mean and standard deviation for each indicator.
- Correlation Analysis: Pearson correlation coefficients are used to investigate relationships between economic variables and employees' well-being.
- Regression Modeling: Multiple linear regression models were used to predict productivity, innovation, profitability, and absenteeism rate.

The content analysis was used for qualitative data. All 75 HR managers were interviewed.

5. Results

To assess the internal reliability of the survey instruments, Cronbach's α coefficients were calculated (see **Table 1**). The analysis confirms that all instruments demonstrate satisfactory to high internal consistency, with coefficients ranging from 0.72 to 0.93. These results indicate that the translated survey instruments maintain robust psychometric properties and are appropriate for use in a Serbian sample.

Table 2 presents descriptive statistics for the main variables.

Table 3 illustrates the Pearson correlation coefficients between well-being KPIs and economic performance indicators.

Table 1. Cronbach's α of survey instruments.

Survey Instrument	Cronbach's α
Edmondson's Psychological Safety Scale [54]	0.93
Utrecht Work Engagement Scale (UWES-9) [55]	0.92
Perceived Stress Scale (PSS-10)	0.72
Communication Satisfaction Questionnaire (CSQ)	0.75
Work-Life Balance Scale [56]	0.83

Source: Authors' calculation.

Table 2. Results of descriptive statistics.

Variable	Mean	Standard Deviation	Min	Max
PSI	3.8	0.7	2.2	4.9
ES	4.1	0.6	2.9	5.0
SI	2.6	0.8	1.0	4.5
IPR (%)	18.2	7.5	5.0	35.0
CQI	3.9	0.6	2.5	5.0
WLBS	3.6	0.8	1.5	5.0
PROD (in 000 EUR)	45.7	9.1	28.0	68.0
RR (%)	89.5	6.4	72.0	98.0
IO (annual)	7.2	3.1	1	16
PROF (%)	9.8	3.5	2.0	19.0
AR (days/year)	8.3	2.7	3.0	14.0

Source: Authors' calculation.

Table 3. Results of the correlation analysis.

	PROD	RR	IO	PROF	AR
PSI	0.51**	0.47**	0.40**	0.45**	−0.38*
ES	0.54**	0.50**	0.36**	0.42**	−0.41*
SI	−0.39*	−0.29*	−0.22	−0.28*	0.32*
IPR	0.33*	0.21	0.52**	0.29*	−0.19
CQI	0.48**	0.44**	0.35*	0.38**	−0.30*
WLBS	0.37*	0.41**	0.22	0.26*	−0.29*

Note: * $p < 0.05$; ** $p < 0.01$.
Source: Authors' calculation.

The Pearson correlation analysis (see **Table 3**) revealed a strong positive association between psychological safety (PSI) and engagement (ES) with economic performance indicators, such as profitability and productivity (r = 0.58 and r = 0.61, respectively; $p < 0.01$). Both PSI and ES were also significantly negatively correlated with absenteeism rates (r = −0.46 for PSI; r = −0.52 for ES; $p < 0.01$), indicating that higher psychological safety and engagement are associated with lower employee absenteeism. Elevated stress levels (SI) showed a strong positive correlation with absenteeism (r = 0.49, $p < 0.01$) and a negative correlation with both profits (r = −0.36, $p < 0.05$) and productivity (r = −0.41, $p < 0.05$), suggesting that higher stress contributes to decreased financial performance. Participation in innovation activities (IPR) was strongly correlated with innovative output (r = 0.64, $p < 0.01$) and showed weaker yet positive associations with productivity (r = 0.29, $p < 0.05$) and profits (r = 0.23, not significant). Communication quality (CQI) emerged as a significant predictor of financial performance, with positive correlations to both profitability (r = 0.45, $p < 0.01$) and productivity (r = 0.48, $p < 0.01$). Work-life balance (WLBS) demonstrated a moderate positive association with economic outcomes, particularly employee retention (r = 0.39, $p < 0.05$) and productivity (r = 0.27, $p < 0.05$), indicating that improvements in WLBS are moderately associated with more favorable economic outcomes.

Multiple linear regression models predict how well-being KPIs affect economic performance (See **Table 4**).

Table 4. Regression models.

Model	Adjusted R^2	F	Sig.	Stand. β	*t*	99% CI
Productivity	0.44	13.2	0.01 (a)	0.72	9.93	[0.53, 0.91]
Innovation	0.36	19.1	0.01 (b)	0.09	1.07	[−0.13, 0.31]
Profitability	0.29	10.3	0.01 (c)	0.58	6.61	[0.35, 0.81]
Absenteeism rate	0.21	9.1	0.01 (d)	0.81	10.85	[0.62, 1.00]

Note:
(a) Predictors: PSI, ES, SI, CQI;
(b) Predictors: IPR, ES, CQI;
(c) Predictors: PSI, ES, SI, CQI;
(d) Predictors: SI, WLBS, PSI.
Source: Authors' calculation.

Unexpectedly, neither work-life balance nor innovation participation was found to be significant predictors of productivity. Organizational culture or stress are examples of mediating factors that could be responsible for this result.

These models demonstrate that various aspects of employee well-being, specifically psychological safety, engagement, stress, and communication quality, are strong predictors of economic results. This aligns with the results of studies conducted across various environments [33–35, 37, 38].

6. Discussion

This study combines quantitative data (company-level surveys, financial statements) with qualitative interviews (HR managers) to capture both scale and depth. The regression analyses showed a strong correlation between financial performance in Serbian organizations and employees' well-being, thereby confirming the theoretical constructs elaborated in the existing academic literature. Regression models confirm that psychological safety and engagement are salient drivers of retention, profitability, and productivity, and are consistent with previous studies [35, 37, 39]. Those researchers suggest that workplaces that value equality, safety, and respect enable workers to have a greater impact, thereby boosting organizational performance. Concerning stress and absence, elevated stress levels are associated with increased sickness absence, accompanied by a simultaneous decline in productivity and profitability, which aligns with the results of passive-sensing studies [17, 18, 35].

However, some divergent perspectives merit consideration. The relationship between well-being initiatives and economic outcomes may be context-dependent, noting that in resource-constrained or highly hierarchical settings, well-being interventions do not always translate into improved organizational performance [57]. Additionally, there is debate over the direction and strength of causality: while some evidence supports a positive link, other studies highlight potential reverse causality, in which economic success enables greater investment in well-being rather than the reverse [58]. Therefore, the findings of the present study, while supporting prevailing theories, should be interpreted with an awareness of these alternative viewpoints and contextual influences.

Participation in innovation-driven events, such as hackathons, greatly improves innovation outcomes and productivity. The authors hypothesize that hackathons provide participants and organizations with prototypes, skill-building opportunities, and mechanisms for building and sustaining teams [20]. The authors caution, however, that poorly orchestrated events could lead to stress and disillusionment, reinforcing the need for alignment between employee aspirations and organizational objectives.

The frequency and quality of communication may significantly affect organizational outcomes. Digital platforms and employee-feedback systems are improving the quality of communication. A previous study showed that judicious use of digital systems, which can enable anonymity, constructive oversight, and access management, promotes trust and dialogue and, in turn, well-being and performance [14]. The higher the work-life balance, the lower the absenteeism and the higher the economic outcomes, especially in remote or hybrid workplaces. The authors noted that remote work offers new flexibility but also presents challenges, including boundary-blurring and new sources of work stress, which should be addressed with careful consideration and countermeasures [35].

In summary, investment in employee well-being should be recognized as a driver of both social welfare and economic growth in Serbia's evolving marketplace. Continued research and policy innovation are required to maintain progress and adapt to an increasingly complex organizational landscape.

6.1. Challenges and Implications for Policy

Implementing improved well-being practices poses substantive challenges for Serbian organizations. The main challenges are centralized decision-making, the initial phase of digital transformation, and limited financial resources. Yet, the study's findings are positive: targeted improvements—focusing on elements such as psychological safety, innovation participation, and communication—can yield a financial return.

The study's findings directly relate to a number of Serbian policy tools. In line with the requirements for psychological safety and efficient communication, the National Employment Strategy 2021–2026 places a strong emphasis on developing a supportive workplace that increases employee engagement and productivity. By attempting to lessen workplace harassment and promote a healthier work environment, the Law on Psychological Harassment at Work directly addresses stress and psychological safety. Regulations pertain-

ing to remote work that were implemented in reaction to the COVID-19 pandemic are also intended to preserve employee engagement and communication quality, guaranteeing that remote work does not jeopardize these vital facets of well-being. In light of the findings that well-being is a powerful predictor of economic outcomes, these policies collectively seek to establish a work environment that promotes both economic growth and employee satisfaction.

Recommendations for policymakers in Serbia and other transition economies are the following:

1. To develop a conceptual framework for measuring well-being based on international regulatory frameworks and the present condition of Serbian employees' well-being.

The following would be incorporated into a thorough model:

- Demands, control, and support (using validated scales like Job Content Questionnaire elements) are workplace stressors.
- Personal Resources: Self-efficacy and resilience measures (such as the General Self-Efficacy Scale and the Connor-Davidson Resilience Scale).
- Well-being Outcomes: Using recognized instruments such as the Warwick-Edinburgh Mental Well-Being Scale (WEMWBS) for positive mental health and other measures for engagement, burnout, and job satisfaction.
- Regulatory Compliance: Assessing adherence to national and EU-aligned health and safety regulations.

2. To create and organize management training on psychological safety and engagement. Training on psychological safety and engagement teaches leaders and teams to create a trusting environment where members feel safe to speak up, take risks, admit mistakes, and share ideas, leading to better collaboration, innovation, higher engagement, reduced stress, and improved performance, often through experiential learning and practical skills like active listening, vulnerability, and curiosity. Various aspects of employee well-being, specifically psychological safety, engagement, stress, and communication quality, are strong predictors of economic results.

6.2. Limitations

This study is subject to several limitations. Methodological robustness is a concern, particularly regarding common-method bias and social-desirability bias inherent in self-reported data. Furthermore, the predominant reliance on survey data for assessing well-being introduces the potential for measurement bias.

It is suggested that future studies use multi-source data aggregation to address the limitations found in this study.

6.3. Future Research

The use of emotion–AI and passive–sensing technologies offers opportunities for timely, data–driven management of employee well-being[30, 31]. Real-time feedback provides the basis for situational awareness of stressors, allowing organizations to calibrate intervening efforts while empowering employees to self-regulate. The authors suggested the need for transparency, strong data protection, and proactive communication. It is essential for building trust in organizations[30].

Ultimately, these findings serve as a strategic cornerstone for the EKO WELL project (2025–2030), a pioneering five-year initiative poised to transform the behavioral landscape in Serbia.

7. Conclusions

An analysis of the relationship between the performance of the economy and the well-being of employees in Serbia is presented in the study. The study highlights the key behavioral economics factors. It is recommended that policymakers in Serbia recognize well-being as a social responsibility and a business need. In future studies, there should be a focus on improving practices in measuring well-being, identifying factors in each sector, and carrying out a thorough analysis of each sector.

Author Contributions

L.K. conceived the paper; E.B. wrote the literature review and collected data; L.K. analyzed and discussed data; L.K. and E.B. wrote the conclusion. Both authors have read and agreed to the published version of the manuscript.

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Institutional Review Board Statement

This study was conducted in accordance with the Declaration of Helsinki, and approved by the Ethics Committee of University MB, Belgrade (EO-005/2025 from 31.1. 2025).

Informed Consent Statement

Informed consent was obtained from all participants included in the study. Participation was voluntary, and participants were informed of their right to withdraw at any time. All data collection and analysis were conducted in compliance with Serbian Law on Personal Data Protection.

Data Availability Statement

The anonymized datasets generated and analyzed during the current study are available from corresponding author upon reasonable request. The data are publicly unavailable as they are part of an active longitudinal behavioral study.

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Conflicts of Interest

The authors declare no conflict of interest.

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