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Dr Mila J. B. NADRLJANSKI

Maritime Faculty, Split, Croatia

Dr Ante J. SANADER

University College of Inspection and Personnel Management, Split, Croatia

Dr Đurđica N. VUKIĆ

University College of Inspection and Personnel Management, Split, Croatia

REWARDING AND HUMAN RESOURCES AS FACTORS OF COMPETITIVE ADVANTAGE

Summary: *In today's global competitiveness, enterprises are forced to grow and develop primarily on the basis of continuous directing their intangible assets, ie. employees to new trends and challenges. This paper presents a detailed theoretical analysis of reward strategy application integrated with business strategy, and its influence on work performance and efficiency. Using the method of analysis and synthesis, as well as induction and deduction, we investigated relevant theoretical and methodological aspects of influence of human resources and reward system on a sustainable competitive advantage.*

Key words: *enterprise, business strategy, human resources, reward system.*

Introduction

Today's global economy is symbolized not only by exchange of goods, but also by exchange of capital, people and information. In market profit games, the physical component of goods is no longer sufficient to create and maintain competitive advantage of enterprises, organizations and institutions. The environment in which modern companies do business is becoming more dynamic and significantly different compared to discontinuities in the past. Changes are rapid, complex and unpredictable and they increasingly affect business and management. Modern company management requires a change in the way of thinking about how to do business and compete in the new economy. The new economy is a sort of a hybrid built on foundations of the old one. Development of technology and knowledge represents the potential that has caused profound changes in economy and society.

The concept of competitiveness

While considering the competitive factors in the selection of target market, it is important to examine the structure and origin of competitors in similar companies and industries. Competitive advantage is a special feature of the company being more effective and efficient than its competitors. Competitive advantage has become a hit. The concept of competitiveness has evolved from the microeconomic aspect, ie. the aspect of company's competitiveness. Competitive advantages essentially emerge from improvement, innovation, replacement of existing products and services, production assets and processes or introducing new ones, particularly in those segments of economy that sublime qualities of new technology advancements. Modern business environment that is constantly transformed by globalization process and scientific and technological progress, makes it difficult for the company to achieve and maintain competitive advantage. Competitive advantages have evolved from comparative advantages. They are dynamic and change easily unlike the comparative ones, which are static and emerge from natural predisposition and economic structure, and can change over longer period. The competitive advantage can be affected by various state policies – foreign exchange policy, industrial policy, tax policy and wage policy. The state policy is very important in creation and building of competitive advantages. Comparative advantages are derived from availability of production factors. Tom Peters (Peters, 1988) says that the main factors of competitive advantage are highly trained and flexible people. The company can achieve competitive advantage only if it has more useful knowledge than its competitors, having intellectual capital. Intellectual capital is a unique resource, because it has no restrictions, thus providing endless opportunities for development. With successful management of intellectual capital it is possible to achieve a sustainable competitive advantage. The model of enhancing efficiency of competitive advantage, based on intellectual capital, emphasizes the new way of creating values, which is intellectual capital management and continuous investment in it, as well as the fact that today assets are less important than employee ability to create value. It is based on the fundamental economic law: decreasing yields. All economic resources are affected by this law, except knowledge which is continuously increasing yields. This very fact suggests that knowledge – intellectual capital is the inexhaustible economic resource which therefore becomes the basic factor of competitive advantage. The condition for survival in the global market is to make the offer superior to the competition's offer. This can be achieved by adequate market orientation of enterprise which means it is focused not only to consumers but also to the competition. The competitiveness more and more stems from employees, corporate culture, reward system, innovation, and business leadership that encourages and supports ongoing changes. Competitiveness as a success factor is present in every company, regardless of whether it operates at national or international market. Competitive advantage is the main indicator of management quality and success of the company. In a competitive market economy, the performance of a company will always be, to some extent, influenced by the success of others.

Competitive advantage is turning towards knowledge. Some companies may fail, but they will succeed again with the help of their knowledge productivity. Human capital of the company (experience, know-how, capacity, creativity) is transformed into its intellectual property (documents, designs, programs, data, inventions,

processes, and best practices) that results in patents and trademarks. Michael Porter (Porter, 1985) analyzes how the availability and quality of certain production factors affect the competitiveness, claiming that human resources are very important, and that quantity itself is not as important as the quality of labor. He concludes that the most important mechanism of this factor is educational and scientific infrastructure. It appears that the countries, which have invested a lot in education and research, develop faster. The key question of competitive advantage, which will be explored in this paper, is devoted to solving infrastructure issues, but also the issues of motivation, rewarding system, acquiring new technologies, and strategic way of thinking.

Changes have affected, to a lesser or greater extent, companies in all sectors and of all sizes. That is why companies, as foundations of economy, are constantly reviewing their objectives and purposes, which is reflected both at theoretical and practical levels. An important prerequisite of business success is the total value which customers or business partners get in an exchange. There are two basic concepts of competitiveness: micro competitiveness, which refers to competitiveness of enterprises, that was introduced by Michael Porter (Porter, 1985), and macro competitiveness, which refers to competitiveness of the national economy as a whole.

Croatian companies are under pressure from both domestic and global competition. The basic condition for sustainable enterprise and its ability to respond to more sophisticated demands of consumers or customers, is the capability to create and maintain competitive advantage based on value. Resource approach to the system of rewarding and human resources is the relevant source of competitive advantage. The concept of human resources is one of the key assets and a direct participant in business development and expansion of enterprises. Material aspects of motivation must be considered while considering the reward system for contributions at work, performance, enduring work loads and unfavorable working environment or even health and life hazards. People, their needs, motivation and satisfaction are becoming the focus of human resource management, because the human capital is the main tool of competitive ability and advantage in the global market. Management must design prizes and incentive programs whose structure depends on if they prefer complex or simple system of motivation, or if the basic system is based on collective or individual factors. Human resource management and employee rewards are areas in which the majority of Croatian entrepreneurs still have space for personal education, and searching for the model that will motivate employees to better performance, and thereby higher profits. Compensation is undoubtedly the priority requirement for satisfaction of employees. It guarantees an adequate standard, although the atmosphere in the workplace is often among top priorities of many employees. The main purpose of the reward system is to generate desired employee behavior. Employee rewards is a necessary component of management system that connects organizational structure, financial and non-financial results and objectives with management and employee behavior.

It is expected that interventions in the field of human resource management, besides improving productivity, influence many non-financial benefits, which also contribute to the success of the organization. These are primarily better connections between employees and their cooperation in achieving common goals, better coherence with the strategic objectives of the company, and overall strengthening of organizational culture. Transferable skills and links within personal networks have

become the core of competitive advantage in today's interconnected world and they define success in a completely new way.

Among most difficult tasks of every company related to the product strategy is to answer two fundamental questions: how to satisfy consumers' (customers') needs with the product (service), and how to improve its market position in relation to the competition and their products or services.

Motivational system of a company

Motivational system of a company must provide three types of behavior essential for organization and development: people should be attracted to enter the system and stay in it; employees must perform tasks and obligations in a satisfactory manner; and company must develop innovative and creative activities to achieve the objectives that will contribute to its development.

In order to ensure the mentioned types of behavior, the motivational system should combine financial and non-financial factors of motivation and rewarding to meet a variety of human needs. The successful motivational system implies considering all the needs of employees, both analytically and synthetically, and accordingly, developing specific models of work and behavior which will be compatible with the overall performance of the company. Creators and implementers of motivational system should know that the quality motivational system requires: better organization of work through challenging and interesting tasks, adequate monitoring of employees' performance of duties and tasks, high-quality system of rewarding employees performance, better informing and better protection of employees' rights, more adequate working conditions, effective vertical and horizontal employee communication, permanent exploring employees' needs and correction of motivational activities in order to increase their satisfaction. In the book "Communicology and Management", the author gives an overview on concepts of business communication, communication skills and managers (Nadrljanski, 2010). Adequate material reward is just a foundation upon which the broad structure of motivational incentives should be built. Achieving competitive advantage can enhance the value of services and everything considered as additional service in the process of sale. The anglophonic expressions: Intellectual Capital - IC, Business Intelligence - BI, Human Capital - HC, Knowledge Management - KM, all have human knowledge and intelligence as a common denominator and it is only different views of the same phenomenon. The share of intellectual labor, in the overall organizational endeavor in developed global economies, have further been increased by new forms of market relations, relations of production, and labor relations. Peter F. Drucker (Drucker, 1998) claims there is no area with a greater difference between profit and non-profit organizations than managing people and relationships. Competitive advantage is essential in business of enterprises in competitive markets. However, nowadays many companies have lost their competitive advantage in the race for growth and looking for diversification. Enterprises are facing slower growth and domestic and global competitors who do not behave as if the market is big enough for all of them. Michael Porter (Porter, 1985) is convinced that the failure of strategies in many companies arises from inability of translating competitive strategy into individual, competitive steps necessary to achieve the competitive advantage. In his book "Competitive

Advantage", he lists a number of disciplines and activities of companies and businesses that have a great impact on their competitive ability. It is not enough to make the particular branch analysis in order to consider the competitive ability of enterprise and to create the strategy that will lead company in a better strategic position in future. Competitive advantage is in the center of business enterprises, and its maintenance requires interconnecting of all the factors. In order to recognize its competitive advantage, the company has to analyze the entire system. A superficial analysis is not enough, but numerous activities of design, production, marketing and sales activities should be reviewed. At the time of stronger competitiveness of the economy and the economic crisis, it is important that the reward system is not treated as an expense, but as an investment that has a positive return. The changes are faster and bigger so advantage over competition can not be achieved just by better positioning within the group, especially because groups change quickly, some disappear, and some new appear on the market. Some new approaches to the company strategy have appeared. Resource approach is about observing the key resources of the company, and about maintenance of existing and creation of future core competencies of the company.

The value of human resources in achieving competitive advantage

In pursuing competitive advantage, the value of human resources has become even more important. Four authors in the book "Human Resource Management: Gaining a Competitive Advantage" (Noe et. al., 2006), write that the approach to human resource management is fundamental to the creation of long-term value of the company and its survival. The book provides a basis for exploring challenges which are necessary to create value and gain competitive advantage. Additionally, they specify three competitive challenges that enterprises will face in the next ten years, and which will increase the importance of human resource management: global challenge, challenge of meeting the needs of interest groups, and challenge of creating high performance work systems. Quality management of human resources is a competitive advantage of modern business. The empirical research on the impact of leadership styles on human resources is presented in the book "Communicology and Management" (Nadrljanski, 2010). Organizational resources are significant, more than ever, and wise allocation of these resources has become an imperative. This is why all organizational functions must be performed together in order to contribute wherever it is possible. It is necessary to carefully study values of all functions, especially the function of human resources. It is believed that all aspects of human resource management, including ways of interaction between enterprises and the environment, the way companies obtain, prepare, develop and reward human resources, and how they shape and evaluate the business, can help enterprises to meet their competitive challenges and create value. Challenges are necessary to create value and to gain competitive advantage. Two university professors and leading experts in the field of human resource management and compensations (Milkovich and Newman, 2005) have made comprehensive overview of analytical models, procedures and examples based on the approach of strategic choices, modern research techniques and practical experiences. The book "Compensation" has become the standard textbook in the field of management of payments at many US and international universities. In order to attract new employees, the employer must ensure that his wage scale is more favorable

than those offered by competitors. It is evident that employees' knowledge and skills initiate rise of the company's profit (Leiponen, 2000).

The key competence is the result of a clear focus and orchestration skill of the following organizational components (Day, 2003): (1) Exterior: Company's priority is to keep consumers / customers and to persuade employees to offer and deliver consumers / customers values in accordance with their needs and desires; (2) Interior: The configuration which includes structuring of the organization and process for personalizing products and services, and their stimulus to create valuable relationships. Intelligent methods of knowledge and technology management enable improvement in productivity, efficiency and competitiveness of enterprises (Mouritsen and Larsen, 2005).

Management through configuration and coordination is the best way to harmonize human resources, needs of targeted consumers / users, organizational structure and reward system. Evaluation of performance efficiency helps competitiveness and strengthening the market position of a particular organization. Reward strategy should be integrated with the business strategy and formulated in a way to enable achievement of long-term goals of the business policy and human resources policy. In today's global competitiveness, enterprises are forced to grow and develop primarily on the basis of continuous directing their intangible assets, ie. employees to new trends and challenges.

The value of human resources is measured by various indicators, such as employee knowledge and skills (Tintor, 1995; Cascio, 2000), their demographic characteristics: age (Sveiby, 1997), length of service (Collins et. al., 2001), gender and fluctuations (Stewart, 1999; Fitz-enz, 2000), compensations (Fitzenz, 1990), investment in education and development (Mayo, 2001) and the like. When did it all begin? In 1994, in the journal "Fortune" Tom Stewart warned companies to devote less to what they own, and more to what they know - their intellectual capital. Later, Peter Drucker (Drucker, 1998) identified knowledge as the new basis of competition in the post-capitalist society, and Paul Romer, an economist from Stanford said that knowledge is the only unlimited resource with the value that grows as much as it is used. Two Japanese academics Ikujiro Nonaka and Hirotaka Takeuchi published "The Knowledge-Creating Company", a study of creation of knowledge and its use in Japanese companies (Nonaka and Takeuchi, 1995). The same year Dorothy Leonard-Barton wrote a detailed study on the role of knowledge in the craft company "Wellsprings of Knowledge" (Leonard-Barton, 1995). That was the time when several books appeared on the market advising managers about the need of knowledge management, but they did not write how. Companies such as "Dow Chemical" and "Skandia", and consulting firms "Ernst & Young" and "IBM Consulting" introduced job positions of chief knowledge officers and directors of intellectual capital in order to examine resources of knowledge in their companies. They showed the value of preservation, improvement and productive enhancement of business results which occur as a result of knowledge management. In studies of human capital, a significant contribution was given by Karl Erik Sveiby (Sveiby, 1997) a researcher at Queensland University of Technology in Australia. He developed the Intangible Asset Monitor, which was first put into use in 1988. The Intangible Asset Monitor is a non-financial instrument for measurement and management of intangible assets, but it does not provide all relevant variables. Namely, the flow of knowledge and intangible assets are not monetary, they

are complex and can not be covered by standardized assessment. That is why we need new indicators and new system which would be able to interpret those indicators meaningfully. Sveiby believes that the total market value of every company, including insurance companies as well, consists of two key components. Without knowledge there is no competitive capability and advantage, and permanent investment in knowledge leads to new entrepreneurial ideas and ventures.

It is also worth mentioning some foreign literature sources, that discussed the proposed issues, regarding the relation between individual and innovation as a factor in rewarding system from the perspective of competitive advantage. It can be mainly divided into three theoretical perspectives: the individualist perspective, structuralist perspective, and interactive process perspective (Slappendel, 1996). Individualist perspective of innovation attributes in organizations refers to the characteristics of individuals and innovators, such as age, gender, level of education, attitudes, personality and so on (Scott and Bruce, 1994). Structuralist perspective explains innovation related to the structural characteristics such as organizational strategy, structure and availability of resources, management and wage policy (Damanpour, 1991; Tushman and Nelson, 1990). Since individualist and structuralist perspectives only partially explain the phenomenon of innovation at the individual or organizational level, these perspectives can not provide a comprehensive view of the complexity of the innovative behavior (Giddens, 1995). The third form of perspective known as the interactive process perspective is basically a process of innovation activities leading to the interaction between the individual and the organization. Determinant characteristics of interactive process perspective emphasize the importance of the relationship between individual and organization in the innovation process. Although conceptually, this perspective provides the facility to rationalize innovative performance (Edwards, 2000; Pierce and Delbecq, 1977; Slappendel, 1996; Van de Ven, 1986). So far in this area there is a little empirical research to support this concept. With a few exceptions of some empirical research (Edwards, 2000; Isaksen and Remoe, 2000), most existing studies have discussed the innovative performance of individuals at the level of the individualist or structuralist perspective.

In her research career, Juliet Schor focused on issues of wages, productivity and profitability (Schor, 1991). According to this author, there is a growing trend of personal deceleration in developed countries, where people tend to simplify their lives selling their properties and giving up their seemingly successful careers. It is social responsibility of a company to allow these people to find a deeper purpose in business environment. Compensatory and motivational systems too often focus on individual functions and working contribution of employees, almost ignoring the values which they really care about. At a time of constant change, people re-examine the basic issues and values that define them and which initiate their career choice. In the analysis, evaluation and fostering of motivation it is possible to use theories that belong to the group of content theories of motivation such as Maslow's hierarchy of needs (Maslow, 1970), McClelland's achievement motivation (McClelland, 1961) or Herzberg's theory of motivation (Herzberg, 1959) which measures factors in the workplace that cause satisfaction. Another group of theories of motivation consists of process theories based on perception, expectation, value, and their interactions.

Motivational processes in work are associated to the values of employees and incentive systems which vary in different societies and economies. To illustrate the

importance of employee motivation we may quote Kjell Nordstrom and Jonas Ridderstrale: "We should give people a challenging agenda, not to tell them what to do". (Nordstrom and Ridderstrale, 2005).

Conclusion

People, their needs, motivation and satisfaction are entering the spotlight of human resource management. Human capital is the main tool of competitive ability and advantage in the global market. Extremely important are interventions in the field of human resource management which, in addition to improving productivity, affect a lot of non-financial benefits, contributing to competitiveness and success of organization as well. Enterprise competitiveness depends more and more on employees, corporate culture, reward system, innovation encouraging, and business leadership that supports ongoing changes. Competitiveness as a success factor is present in every company, regardless of whether it operates at national or international market. In addition to boosting sales of products or services, achieving competitive advantage can enhance the value of all additional services as well. Competitive advantage is in the focus of business enterprises, and its acquisition and maintenance require interconnecting of all the factors. In order to recognize its competitive advantage, the company has to analyze the entire system and review numerous activities of design, production, marketing and sales activities. A prerequisite of business success is the total value which customers or business partners believe they will get in an exchange, so the basic condition for sustainable enterprise is to respond to more sophisticated demands of consumers / customers. The concept of human resources is one of the key assets and a direct participant in business development and expansion of enterprises. Resource approach to the system of rewarding and human resources is the relevant source of competitive advantage. Evaluation of work efficiency helps competitiveness and strengthening the market position of a particular organization. Reward strategy should be integrated with the business strategy and formulated in a way to enable achievement of long-term goals of the business policy and human resources policy. Management must design prizes and incentive programs whose structure depends on whether they prefer complex or simple system of motivation and whether the basic system is based on collective or individual factors. Human resource management and employee rewards are areas in which Croatian entrepreneurs still have space for personal education, and searching for the model that will motivate employees to better performance. By collecting and analyzing literature, this paper presents a theoretical study of influence of reward system on a sustainable competitive advantage, and it can serve as the basis for empirical research on models for increasing the effectiveness of competitive advantage of companies based on intellectual capital.

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NAGRAĐIVANJE I KADROVI KAO FAKTORI KOMPETITIVNE PREDNOSTI

Rezime: U današnje vreme globalne kompeticije, firme su primorane da se razvijaju prvenstveno na osnovu stalnog usemeravanja svojih zaposlenih ka novim trendovima i izazovima. U ovom radu je predstavljena detaljna teorijska analiza strategije nagrađivanja koje je integrisana sa poslovnom strategijom i uticajme na izvođenje poslova i efikasnost. Korišćenjem metoda analize i sinteze, kao i indukcije i dedukcije, istražili smo relevantne teorijske i metodološke aspekte uticaja kadrova na sistem nagrađivanja u održivoj komepetitivnoj prednosti.

Ključne reči: firma, poslovna strategija, kadrovi, sistem nagrađivanja.

СИСТЕМА ВОЗНАГРАЖДЕНИЯ И ЧЕЛОВЕЧЕСКИЕ РЕСУРСЫ КАК ФАКТОРЫ КОНКУРЕНТНОГО ПРЕИМУЩЕСТВА

Резюме: В современной глобальной конкурентоспособности, предприятия вынуждены расти и развиваться, в первую очередь, на основе непрерывного направления своих нематериальных ценностей, т.е. служащих-работающих в фирме, к новым тенденциям и проблемам. Настоящая статья представляет собой подробный теоретический анализ применения стратегии вознаграждения, интегрированной с бизнес-стратегией и их влияние на производительность труда и эффективность. Используя метод анализа и синтеза, а также индукции и дедукции, мы исследовали соответствующие теоретические и методологические аспекты влияния человеческих ресурсов и системы вознаграждения на устойчивое конкурентное преимущество.

Ключевые слова: предприятие, бизнес-стратегия, человеческие ресурсы, система вознаграждения.

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