HUMAN RESOURCE MANAGEMENT IN FUNCTION OF CREATING THE STRATEGIC COMPETITIVE ADVANTAGES

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ABSTRACT

Contemporary understanding of the market success of companies is linked to the concept of strategic competitiveness. Although often mentioned, strategic competitiveness for many managers is still a concept that is very complex with a spectacular question of “how to get it”. Namely, it is necessary to determine the manner in which the company becomes competitive and becomes the first and best on the market, and provides self – survival, growth and development. There are a growing number of managers who achieve competitive advantage due to human resources instead of using a particular technology, the availability of financial capital and the like. Therefore, today more and more attention is paid to the nature and characteristics of these resources. The aim of this study was to research the impact of human resource management on the competitiveness of modern enterprises through the analysis of all management activities which includes that concept. Special emphasis is placed on the importance of learning and knowledge held by human resources and which, according to many authors in this area, are considered as the most important factors of competitive advantage. In fact, the way a man can be a source of competitive advantage is the permanent development of human capital that provides the company a unique ability and willingness to accept permanent and inevitable changes in business environment.

Key words: Management, human resources, competitive advantage, human resources strategies, learning, development, changes

INTRODUCTION

Changes in the world and economy have imposed the human resources as key factors for making and maintaining competitive advantage. The new economy has become largely dependent on the skills and knowledge of employees, much more than traditional industrial economy. The basic feature of the new economy is that the intangible resources have become holders of corporate performances, with the creation of their activity related exclusively to human resources. They give to an organization a competitive advantage over the other with their knowledge and skills, and with the way they use them.

This important role of human resource management in gaining competitive advantages is well – known in developed economies. But, when developing and less – developed countries are taken into consideration, according to present practice in enterprises, it seems that this concept is still not understood enough. Because of that kind of misunderstanding, main goal of this paper was to point out the importance and value of human resources with its management approach for competitive advantages and by that, for organizational success, growth and development.
THEORETICAL APPROACH TO THE IMPORTANCE OF HUMAN RESOURCES FOR CONTEMPORARY ORGANIZATIONS AND COMPETITIVE ADVANTAGE

Human resources are one of the most important resources for creation of value and competitive advantage in modern enterprises. Employees with their knowledge, expertise, motivation, loyalty and dedication to the company essentially determine the performances and market position of a company. Also, employees viewed as the human capital of the company have the ability to create other forms of intellectual capital that will have a growing strategic importance for the company in long run. They create patent inventions, brands, processes, databases, information systems, training programs and organizational culture (Vemić – Đurković, 2009).

As a creative and innovative part of every company, people play a leading role in creating and maintaining its competitive advantage. Only highly trained, properly motivated employees, with constant and continuous learning new business skills, can meet these challenges imposed by the new business environment that is characterized by risk and uncertainty. Namely, one society survives as good as their companies are successful in providing goods and services for modern industrial and post – industrial state (Štangl Šušnjar and Zimanji, 2006, pp. 7).

The importance of human resources was delivered trough many scientific researches deducted around the world. Researches as Mayo, McGregor, Argyris, Likert, Maslow, etc. insist on the importance of human resources for the success of the company. Likert was explicitly about human resources as a key organizational resource. He developed the concept of "human resource accounting" in order to point out the need for an enterprise to take into account the costs and losses which is due to negative attitudes, low motivation, dissatisfied employees and similar elusive, subjective variables that are not taken into account, and profit from their improvements (Bahijarević-Šiber, 1999, pp. 43).

Torrington, Hall, Taylor, Beardwell, Holden, Claydon and Dessler gave their contribution to understanding human resources as a factor for competitive advantage. Beside them, many authors researched and wrote about management and human resources, for example Weirich and Koontz emphasized the importance of staffing and human resources function (1998, pp. 356). Also, Schultz believed that investment in human resources has several times the effects of investment in material resources. If companies are not investing in human resources at least as much as invests in other resources it will have little chance for success (Schultz, 1985, pp.70). New employment and the introduction of new staff in the structure of the business or other organizational system, according to the rules of theory and practice of the organization, is focused on further development, improvement of efficiency and effectiveness in achieving the objectives of programmed business system or other social organizations (Vučenović and Leković, 1998, pp. 300).

HUMAN RESOURCE MANAGEMENT IN FUNCTION OF CREATING COMPETITIVE ADVANTAGE

Human resource management implies a process containing several activities such as: design of scope of work, planning, staffing, training and development, performance evaluation, compensation system, relations with employee’s unions, etc. Each of these activities is important for successful human resources management. For example, planning of human resources is tightly connected to strategic and business planning in company (Berber, 2011). The goal of human resource management is as efficient as possible usage of them and achieving the highest possible economic effects ( Miner, J., Crane, pp.6). The importance of human resource management for the modern business enterprise, and the principles by which modern management is guided determines the philosophy that man is the most valuable resource in the organization. This resource is perceived as a potential and total power (competitive advantage) of the company. In this paper, author analyzed two important field connected with human resources and related to competitive advantage: changes and new business environment and value creation.
Role of human resource management in new business environment (changes and learning)

Growing uncertainty brings companies changes and requests for successful adoption of those changes. In modern organizations drivers of changes are linked as: informational revolution, technology and globalization. Main implications derived from these drivers are continuous changes, decrease in physical assets, overcoming of spatial and temporal restrictions and risk exposure. As a successful response to all this changes, Coulter (2008, pp. 57) gave three critical factors which are of crucial means in new business environment: capability for accepting of changes, capability for creativity and innovation and capability that organization reaches world level. Clearly, for meeting all these needs and factors, it is important to point out the importance of human resources of the enterprise. A good example how human resources can influence on changes is given in figure 1 (Čosić and Maksimović, 2011).

![Figure 1: Influence of changes on contemporary organization](image1.png)

From the figure 1 it is obvious that every change that happens in environment can be seen as a problem searching for solution. Solution is usually something new for organization, an innovation that, again, creates changes. Now, change can be start for new problems and so on. Although some authors claim that changes mean problems, they can be described in other way. Namely, changes can be seen as chances for an organization to improve its business processes, resource usage and develop its business strategy, faced with human resources that are capable to understand changes, think about solution, innovate and create appropriate solution.

![Figure 2: Effects of human resources in working processes](image2.png)
In contemporary conditions, characterized by strengthening and global economic competition, faster and shorter economic changes, as well as shorter time of activities in relation to the lifespan, the 'normal' growth of unemployment, structural unemployment, all point to the conclusion that the classic way of education is not enough for managing the cited tensions (Leković and Štangl Sušnjar, 2010, pp. 53). This can include the view that continuity of learning and acquiring knowledge, experience and skills must always be greater than the rate of change and the effects of unforeseen influences. Ćosić and Tešić (2009) claimed that the basis for the development of enterprise are human resources that have independent thinking, are likely to reflective effect, they have aspirations beyond their possibilities, have the courage for action, not afraid of possible mistakes, able to act between the established and innovative prediction of uncertainty and which operate between the known and unknown. They showed the influences of human resources in business processes (figure 2).

**Role of human resource management in performance improvement and value creation**

A common and very good indicator of human capital development and success in correlation with performance, especially shareholder value is *human capital index*. The Watson Wyatt Human Capital Index (HCI) shows a clear relationship between the effectiveness of a company’s human capital and the creation of superior shareholder returns. In the first HCI study, conducted in 1999, Watson Wyatt surveyed more than 400 U.S. and Canada-based companies that were publicly traded, had at least three years of shareholder returns. A wide range of questions about how the organizations carried out their human resources practices, including pay, people development, and communications and staffing have been analyzed. Responses were matched to objective financial measures, including market value, three and five-year total returns to shareholders (TRS), and Tobin’s Q, an economist’s ratio that measures an organization’s ability to create value beyond its physical assets.

To investigate the relationship between human capital practices and value creation, a series of multiple regression analyses were conducted. 30 key HR practices were associated with a *30 percent increase in market value*. Summary HCI scores were created for individual organizations so that results could be expressed on a scale of 0 to 100. An HCI score of 0 represents the poorest human capital management, while a score of 100 is ideal (http://www.oswego.edu/~friedman/human_cap_index.pdf preuzeto 27.04.2011.). In early 2001, the HCI research was conducted again, this time including responses from more than 500 North American companies. The conclusion was the same: Higher HCI companies create substantially more shareholder value. When looking at five-year TRS, the results are striking. High HCI companies have provided significantly more TRS than low HCI companies (http://www.oswego.edu/~friedman/human_cap_index.pdf, 27.04.2011.).

![Figure 3: Total returns to Shareholders in correlation with HCI](http://www.oswego.edu/~friedman/human_cap_index.pdf)

These practices can be grouped into five dimensions: recruiting excellence, clear rewards and accountability, a collegial and flexible workplace, communications integrity and prudent use of resources. Prevalence in an organization of the first four dimensions is associated with increased economic value. The fifth dimension is associated with lower market value.
Table 1: Expected Change in Market Value Associated with a Significant Improvement in HCI Dimension (1999)

<table>
<thead>
<tr>
<th>HCI Dimension</th>
<th>Expected Change in Market Value Associated with a Significant Improvement in HCI Dimension</th>
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</thead>
<tbody>
<tr>
<td>Recruiting excellence</td>
<td>10.1 %</td>
</tr>
<tr>
<td>Clear rewards and accountability</td>
<td>9.2 %</td>
</tr>
<tr>
<td>Collegial, flexible workplace</td>
<td>7.8 %</td>
</tr>
<tr>
<td>Communications integrity</td>
<td>4.0 %</td>
</tr>
<tr>
<td>Prudent use of resources</td>
<td>-10.0 %</td>
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</table>


According data from survey in 2001, it is also concluded that human resources are significantly important for value creation, and this can be presented by Table1. Significant improvement in 43 key HR practices is associated with an increase of 47% in market value.

Table 2: Expected Change in Market Value Associated with a Significant Improvement in HCI Dimension (2001)

<table>
<thead>
<tr>
<th>HCI Dimension</th>
<th>Expected Change in Market Value Associated with a Significant Improvement in HCI Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Rewards and Accountability</td>
<td>16.5%</td>
</tr>
<tr>
<td>Collegial, Flexible Workplace</td>
<td>9.0%</td>
</tr>
<tr>
<td>Recruiting and Retention Excellence</td>
<td>7.9%</td>
</tr>
<tr>
<td>Communications Integrity</td>
<td>7.1%</td>
</tr>
<tr>
<td>Focused HR Service Technologies</td>
<td>6.5%</td>
</tr>
<tr>
<td>Total</td>
<td>47.0%</td>
</tr>
</tbody>
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INSTEAD OF CONCLUSION

Contemporary enterprises are driven by market pressures in sense of need to include in their goals improved quality and productivity, greater flexibility, continuous innovation, and the ability to change to respond rapidly to market needs and demands. Effective HRM is vital for the attainment of these goals. Improved quality and productivity linked to motivation can be achieved through training, employee involvement and extrinsic and intrinsic rewards.

Figure 4: A Model of Human Resources as a Source of Sustained Competitive Advantage (Wright et al., 1994)

From figure 4, firstly, managers should develop the human capital pool by utilizing HR practices such as the development of selection, appraisal, training, and compensation systems to attract, identify, and retain high quality employees. Secondly, HR programs such as extensive recruitment systems and attractive compensation packages can be used to attract and retain employees with the highest ability,
quality and best organizational-fit. Thirdly, training programs aimed at increasing and developing individual’s skills and competencies provide continuing skill development of a firm’s human capital pool (Wright et al., 1994). After all theoretical and empirical evidences (measurement of HCI), the aim of this paper to point out the importance of human resources, was reached. Namely, human resources are important and critical factor for gaining competitive advantage only if they are properly managed. Recommendations for a future are further researches in area of human resource management linked to competitive advantage and strategic success of Serbian enterprises.

REFERENCES