

HRM as a Significant Factor for Achieving Competitiveness through People: The Croatian Case

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Abstract This paper evaluates the quality of human resource management (HRM) in Croatia because excellent human resource (HR) policies, programs and activities enable enterprises to maximize their workforce productivity. The research was conducted in enterprises with more than 200 employees. The value of HRM was assessed using the HR audit approach. Fifty-five HR indicators were analyzed from the top 10 Croatian HR enterprises to serve as benchmarks for the final sample of 80 enterprises. Results indicate Croatian enterprises have deficient HR practices, on average. Independent sample *t*-tests showed 61.82% of HR indicators were significantly better in the benchmark firms. Consequently, HRM in Croatia can not be considered solid ground for achieving competitiveness through people.

Keywords Human resource management (HRM) · HR practices · Competitive advantage · Competitiveness through people · HR indicators

JEL M00 · M10 · M12

Introduction

Traditional sources of competitive advantage, such as production capacities, research laboratories, access to financial resources, distribution channels or economies of scale, are necessary but not sufficient for success in today's business world. It is commonly acknowledged "people are the key assets in the new world market and that all other assets are nothing more than commodities that can be purchased at market prices, because only the human asset has potential to learn, grow, and contribute" (Fitz-enz 1995, p. 45). As "we do live in a world in which knowledge,

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rather than physical capital, is increasingly important, we need smart people who can do great things—increase productivity, build new products and services—and do so even more quickly” (O’Reilly and Pfeffer 2000, p. 1). Researchers emphasize: the role of employees for achieving enterprise goals (Boudreau 1997; Baird and Meshoulam 1988), employees are the most important enterprise asset (Quinn 1992; Mayo 2001), and human capital represents the only sustainable source of competitive advantage (Hamel and Prahalad 1994; Pfeffer 1994; Spencer 1995; Boudreau 1996). In other words, “the biggest, most valuable asset any company has is its people, because all management plans for success enhancement are carried out, or fail to be carried out, by people” (Darling 1999, p. 317).

Consequently, human resource management (HRM) deals with recruiting, developing, and keeping the best people. It now has the opportunity to move out of the background and into the mainstream organizational strategy and management. In a world where “all work is knowledge work and intellectual capital is crucial for economic success, it is logical that the ability to attract, retain, and use the talents of people provides a competitive edge” (O’Reilly and Pfeffer 2000, p. 257).

The aim of this paper is to evaluate the quality of HRM in Croatia because excellent HR policies, programs and activities enable firms compete through their employees. Hence, in order to reveal whether HRM in Croatia is strong enough to be a solid ground for achieving competitive advantage through people, an empirical study was conducted using sample and measurement tools as the principle research methods. Altogether, the key objectives of this research study were: (1) to provide a literature review of HRM’s contribution of the firm’s competitive advantage through people and (2) to assess the quality of human resource (HR) practices in Croatia, on the basis that only strong HR systems enable enterprises to achieve a competitive advantage through their employees.

Literature Review

HRM in modern enterprises has two main purposes: (1) to foster the performance of an enterprise and (2) to act as a support for achieving a worker competitive advantage (Pološki Vokić 2004, p. 457), as Fig. 1 exhibits.

The majority of HR scholars provide evidence sound HR systems contribute to productivity improvement and enterprises using approved and/or innovative HR practices financially outperform those enterprises not using them. They explore the foremost benefit of high-quality HRM (organizational performance) but seldom take a second step of investigating its relationship with organizational competitive advantage, as resourced based investigations do. Resource-based researchers are striving to provide evidence that the development of an effective HR system can play a major role in the creation of a workforce competitive advantage.¹ The results of their investigations of the relationship between an enterprise’s HR practice and its competitive advantage through people are summarized in Table 1.

¹ The following researchers addressed the link between HR practices and an enterprise’s competitive advantage through its personnel: Schuler and Jackson (1987), Barney and Wright (1998), Lado and Wilson (1994), Wright et al. (1994), Pfeffer (1995), Tayeb (1995), and Boxall (1998). Those that conducted field research proved opportunities do exist for enterprises to develop industry leadership through people by superior HR practices. For examples: see Snell and Dean (1992), Swiercz and Spencer (1992), Boxall and Steeneveld (1999), and Khandekar and Sharma (2005a).



Source: Khandekar, A. & Sharma, A. (2005). Organizational learning in Indian organizations: a strategic HRM perspective. *Journal of Small Business and Enterprise Development*, 12(2), p. 222

Fig. 1 The model of organizational learning and strategic HRM for sustainable competitive advantage. Source: Khandekar and Sharma (2005b)

In order for employees to fulfill their potential, act as a source of competitive advantage, and contribute to the development of the company's competitiveness, they must be knowledgeable and motivated. Enterprises need to continually invest in employees' knowledge, skills, motivation and behaviors, as well as preserving the required number and structure of employees. HR acts as a differentiating asset solely when it is wisely managed, the strength of the firm's HR system is unquestionable, and an enterprise has a high-performing HRM. Accordingly, the value of human resources in an enterprise can rise, decline or maintain the same level, depending on how those assets are managed.

HRM is the key factor for increasing employees' productivity, meaning HR practices turn employees into a resource for development and a source of competitiveness. Consequently, the starting point for enterprises wishing to manage their human capital successfully and seeking a labor competitive advantage is activities of HR department. Because employees are currently considered a basic source of competitive advantage, enterprises find it extremely important to invest in their recruitment, selection motivation, compensation and benefits, trading and development (TandD), retention, etc. and to constantly strive to improve and implement better HR practices.

HRM is playing an increasing important role in contemporary enterprises and, therefore, HR practices should be fully integrated in competitive management systems. In a modern world, the competitive advantage of an enterprise rest on its employees; thus, HR should act as a strategic partner. In today's business world, competent employees are hygiene factors and high performance work systems are motivators (Herzberg 1966).

Research Methodology

Sample

With the intention of evaluating the quality of HRM in Croatia, all Croatian enterprises with more than 200 employees² were contacted to participate in the

² According to Collins et al. (2001, p. 13) enterprises with 50 or more employees should have a formal HR system and are therefore eligible for HR evaluation; with Croatian practice in mind, the population of this study was Croatian companies with more than 200 employees. It was assumed only enterprises with more than 200 employees have HR policies, programs and activities developed enough to be surveyed.

Table 1 Academic findings on relationship between HRM and labor competitive advantages

Authors	Findings
Snell and Dean (1992)	HR practices enhance the firm's competitive position by creating superior human capital (skills, experience and knowledge) that contribute to firm's economic value
Swiercz and Spencer (1992)	HRM could be a valuable asset and tool of corporate strategy
Wright et al. (1994)	The correct mix of HR practices is necessary for maximum effectiveness of the HR capital pool
Pfeffer (1995)	There are interrelated practices that characterize companies who are effective in achieving competitive success through people management
Boxall (1996)	By hiring and developing talented staff and synergizing their contribution within the firm's resource bundle, HRM may lay the basis for a sustained competitive advantage
Boxall and Purcell (2000)	HR practices may build the human capital pool and stimulate human behavior to create an advantage
O'Reilly and Pfeffer (2000)	Companies need cultures and systems where great people can actually use their talents and, even better, management practices that produce extraordinary results from almost everybody
Bontis and Fitz-enz (2002)	For senior managers to manage the dynamic changes of turbulent economic environments and filter the massive sources of information into knowledge (or, better yet, wisdom), an integrated perspective of human capital management plays a considerable role
Chen et al. (2003)	HR activities are frequently acknowledged to play a central role in linking employee capabilities with the performance requirements of a firm
Laursen and Foss (2003)	Strategy scholars have argued human resources are particularly likely to be sources of competitive advantage and, therefore, HR practices should be central to strategy
Wright et al. (2003)	Creating competitive advantage through people requires careful attention to practices that best leverage these assets
Khandekar and Sharma (2005a)	By recognizing, developing, and utilizing capabilities embedded in the collective knowledge of firm's members, HRD can play a very important role in developing people's capabilities as a source of sustainable competitive advantage. Furthermore, they observed more and more organizations are designing their HR systems to enable employees to use their knowledge for a competitive edge
Verreault and Hyland (2005)	Elements of human capital management are central to the successful implementation of most other management initiatives and achieving the firm's strategic goals

survey. Questionnaires were sent to 558 enterprises;³ 80 returned a completed questionnaire and, therefore, form the final sample (Table 2).

The response rate of 14.3% is acceptable and common. For example, there were response rates of 11% and 18%, in Delery and Doty (1996) and Cheah-Liaw et al. (2003), respectively. It is assumed a percentage of Croatian enterprises did not participate in the survey because they did not want to reveal their less than desirable personnel management practices, making the response rate even more acceptable.

³ The list of Croatian enterprises with more than 200 employees was obtained from the Croatian Chamber of Economy web database (http://www1.biznet.hr/HgkWeb/do/extlogon?lang=hr_HR).

Table 2 Profile of enterprises in the final sample

	Structure (Percentage of Enterprises)
Firm size based on the number of employees	200 to 300 employees (25.00%), 300 to 400 employees (21.25%), 400 to 500 employees (10.00%), 500 to 1000 employees (23.75%), more than 1,000 employees (20.00%)
Primary industry	Agriculture and food industry (18.52%), manufacturing (23.46%), electricity, gas and water supply (9.88%), construction (1.23%), ship building (2.47%), transport, distribution and storage (7.41%), wholesale and retail (14.82%), hospitality and tourism (4.94%), telecommunication and information technologies (3.70%), banking (1.23%), financial services (1.23%), other services (11.11%)
Ownership structure	State-owned enterprises (30.00%), private Croatian-owned enterprises (48.75%), private foreign-owned enterprises (21.25%)

Measures

There are two main approaches to HR evaluation: (1) the audit approach, with two major subjects, personnel indices/key indicators and user-reaction measures, and (2) the analytic approach, with two general alternatives, experimental design and cost-benefit analysis (Tsui and Gomez-Mejia 1988, p. 189–197). In order to assess the value of HRM in Croatia, this study used the audit approach based on HR indicators.

The main body of the experiment was highly-structured questionnaire that gathered different quantitative and qualitative indicators of HR practices. The survey encompassed five sets of questions: (1) questions concerning HR department and HR practices in general, (2) questions concerning quantitative HR indicators, (3) questions concerning HR functions (HR planning, job analysis, recruitment and selection, performance appraisal, compensations and benefits, training and development, career management, HR information systems (HRIS), and other HR services), (4) the HR director's background characteristics and (5) enterprise characteristics (company size based on the number of employees, main enterprise activity, and ownership structure).

Survey questions were created from Croatian HR procedures and previous Croatian HRM studies (see Marušić 1999; Pološki Vokić 2004; Pološki Vokić and Frajlić 2004). Some of the indicators used are not widely acknowledged in HRM research, such as “The Existence of HR Department” or “Adequateness of HR Department Name,” but are relevant for Croatian HR practice and were collected. Generally, Croatian enterprises are not accustomed to gathering and calculating various HR indicators. Furthermore, those enterprises that do keep track of HR costs, levels or programs, seldom track them in a centralized manner. Instead, costs, levels or progress of HR activities are tracked separately in HR sub-departments and information is frequently not shared.

Questionnaires were sent by post with a brief covering letter explaining purpose and importance of the research. HR directors, as most knowledgeable and informed people regarding their companies, HR practices, were asked to coordinate questionnaires' fulfillment on behalf of their enterprises.

Data Analysis

Around 100 HR indicators were acquired and 55 had substantial quality for further statistical analysis.⁴ Twenty-six of the indicators were quantitative and 29 qualitative. Quantitative HR indicators were either numerical values provided by enterprises or rankings of HR quality assigned by the authors. Qualitative HR indicators were developed from descriptions of HR activities, programs or status given by enterprises participating in the survey.

In order to evaluate the quality of HR practices in Croatia and their ability to contribute to enterprise competitiveness, a benchmarking technique was used. The average values of HR indicators for the whole sample represent the general status of HRM in Croatia and were compared to corresponding values for the benchmark enterprises. The top ten Croatian HR businesses were used as benchmarks. The list benchmark enterprises was generated from the lists of enterprises in the sample using the expert method. Several Croatian HRM theoreticians listed and agreed on the Croatian enterprises with the best understanding and implementation of contemporary HRM philosophy.

Upon acquiring data, the HR assessment process consisted of four steps. The first step was extracting HR indicators by performing calculations and categorizations. The second step used those indicators of substantial quality for further statistical analysis, as previously explained. Third step computed average values of different HR indicators for all enterprises in the sample and average values for enterprises with a superior HR division (the benchmark cluster), as well as conducting independent sample *t*-tests to determine whether the means of the two samples differ. The fourth step comprehensively analyzed the results. Descriptive statistics calculations and independent sample *t*-tests were conducted using the Statistical Package for the Social Sciences (SPSS).

Research Results

Research results are presented separately for quantitative and for qualitative HR indicators. Quantitative HR indicators are more tangible and, therefore, exhibited first. Table 3 contains mean values and independent samples *t*-test results for those indicators.

As evident from Table 3, 15 quantitative HR indicators from the 26 examined, were significantly better for benchmark enterprises. Remaining HR indicators are better, higher or more in absolute values for enterprises in the benchmark cluster, however they are not significantly superior. This suggests, even though those HR practices are preformed better in cluster enterprises, the gap, between the performance of those practices in average Croatian companies and equivalent

⁴ It is vital to emphasize the final number of HR indicators analyzed was 55, although the HR policies, programs and activities constituting these indicators are related in practice and form the inter-correlated perspective. The decision not to reduce the number of HR indicators examined corresponds with the HR audit approach postulate of extensiveness, which enables a comprehensive and thorough assessment of HR practices.

Table 3 Quantitative HR indicators for sample and benchmark enterprises: mean values and independent sample of *t*-test results

Quantitative HR Indicators	Mean		Independent Samples <i>t</i> -test Results		
	All Enterprises ^a	Benchmark Enterprises ^b	<i>t</i> Value	Significance	Level of Significance
1. Adequateness of HR department name ^c	1.85	2.40	2.041	0.045	0.05
2. Frequency of HR department evaluation per year	0.32	1.38	2.800	0.025	0.05
3. Quality of HR department evaluation ^d	1.40	2.80	4.480	0.001	0.01
4. HR department cost per HR employee ^e	323,150.12	481,387.79	1.404	0.176	
5. Percentage of total employees in HR department	0.86	1.97	1.491	0.170	
6. Quality of HR indicators record keeping ^f	2.98	3.60	1.335	0.185	
7. Lowest monthly net wage	2,369.95	2,779.86	1.638	0.107	
8. Highest monthly net wage	11,905.06	13,970.37	0.754	0.455	
9. Average monthly net wage	4,277.42	6,060.19	3.819	0.000	0.01
10. Gross compensation cost per employee	89,989.25	139,060.08	2.629	0.035	0.05
11. Gross benefit cost per employee	5,366.80	10,926.72	3.073	0.004	0.01
12. Percentage of employees with variable part of their wage/salary	37.22	79.30	3.605	0.001	0.01
13. TandD cost per employee	1,499.61	5,350.75	3.081	0.018	0.05
14. Percentage of additionally educated employees ^g	27.45	62.60	5.313	0.000	0.01
15. Hours of TandD per enterprise employee	12.74	25.08	3.613	0.007	0.01
16. Hours of TandD per additionally educated employee	33.16	37.72	0.581	0.569	
17. Percentage of employees that are in career management program	5.03	17.38	1.790	0.116	
18. Frequency of performance appraisal	2.21	3.10	2.293	0.025	0.05
19. Percentage of employees that are performance appraised	36.49	74.23	3.307	0.002	0.01
20. Selection ratio for all employees	15.19	31.78	1.382	0.218	
21. Selection ratio for highly educated employees	14.22	34.75	2.022	0.012	0.05
22. Annual absent hours per employee	278.28	248.09	-0.473	0.638	
23. Total percentage of employees absent per year	6.62	4.52	0.026	0.980	
24. Average age of employees in years	42.00	39.15	-2.320	0.023	0.05
25. Average educational level in enterprise ^h	0.67	0.78	2.557	0.030	0.05
26. Years of service in enterprise	19.27	15.03	-1.783	0.080	

^a All 80 enterprises in the sample.

^b Ten enterprises with the best HR practices.

^c Adequateness of HR department name was ranked according to the scale: 1—completely inadequate, such as “Personnel administration” or “General, legal and personnel matters”, 2—partially inadequate, and 3—adequate, such as “HR department”.

^d Quality of HR department evaluation was ranked on the scale from 1 (enterprise does not evaluate the quality of HR department) to 5 (enterprise engages a lot in evaluation of HR department).

^e All financial data expressed in the table are in Croatian kuna (HRK).

Table 3 (continued)

^f Quality of HR record keeping indicators were ranked 0 (not even one HR indicator recorded) to 5 (almost all required HR indicators recorded).

^g Additionally educated signifies the training and development provided by the firm beyond the employee's initial knowledge after arriving at the firm.

^h The average qualification structure of employees was computed as a weighted mean, where the weights of educational levels were corresponding coefficients according to the Croatian Public Companies Wages Act (<http://www.nn.hr/sluzbeni-list/sluzbeni/index.asp>). The coefficients of the different educational levels used were: 0.50 for basic school education, 0.65 for a secondary school education, 0.90 for a non-university college degree, 1.05 for a university degree, and 1.40 for graduate degree (master's/doctorate).

practices in superior Croatian HRM enterprises, is not wide. The average Croatian and average cluster enterprise are equally good/bad in performing HR policies, programs and activities associated with those eleven indicators.

The second part of the analysis dealt with qualitative HR indicators. Mean values and independent samples *t*-test results for those indicators are presented in Table 4. Similar to results for quantitative HR indicators, a large number of qualitative HR indicators are significantly better for benchmark enterprises, as Table 4 depicts. Nineteen of 29 qualitative HR indicators are significantly better. Again, like the quantitative HR indicators, the remaining qualitative HR indicators are, in absolute terms, better for benchmark enterprises. The benchmark cluster is characterized by firms whose HR practices are better than the average Croatian percentage. However, although benchmark enterprises perform those HR practices more commonly, those practices are not significantly more present in the benchmark cluster.

Discussion, Limitations and Further Research

Table 5 gives the summary of significantly different quantitative and qualitative HR indicators between all enterprises in the sample, representing the average status in Croatia, and the benchmark enterprises. As Table 5 shows, 61.82% of the HR indicators explored (34 out of 55; 15 quantitative and 19 qualitative) are significantly better for benchmark enterprises. Even though the benchmark cluster consisted of enterprises with the best HR practices, benchmark enterprises should not have been significantly better, since the average results for Croatia include those enterprises as well. If those differences failed to be significant, then it could be concluded HR practices in Croatia are, in fact, developed because mean values for enterprises representing Croatia would not be significantly better from the values of the best Croatian enterprises. Therefore, it can be concluded HR practices in Croatia are not developed because there are significant differences for the observed HR indicators between the benchmark and the average Croatian enterprises.

HR practices in Croatia are not developed because, not only were significant differences found when examining values of different HR indicators, it is evident that HRM in Croatia is not even near the practices and standards existing in the advanced western countries (see Kravetz 1988; Welbourne and Andrews 1996; Batt 2000; Guthrie 2001; Huselid et al. 2005). Sadly, even when analyzing HR practices in the benchmark cluster, the results are far from a high performance working system.

Table 4 Qualitative HR indicators for all companies and the benchmark enterprises: mean values and independent sample *t*-test results

Qualitative HR Indicators (Percentage of Enterprises)	Mean		Independent Samples <i>t</i> -test Results		
	All Enterprises ^a	Benchmark Enterprises ^b	<i>t</i> Value	Significance	Level of Significance
1. That have a HR department	75.3	100.0	-5.239	0.000	0.01
2. Evaluating their HR department	23.9	90.0	-6.881	0.000	0.01
3. Where the HR department participates in strategic decision making	68.1	100.0	3.689	0.000	0.01
4. Where the HR department has a mission statement	35.6	70.0	-3.210	0.002	0.01
5. Doing HR cost-benefit analysis	55.6	100.0	-3.370	0.001	0.01
6. which have a higher average wage/salary than average Croatian enterprise	39.2	80.0	-2.727	0.008	0.01
7. Which have higher managerial salaries than their competition	10.5	42.9	-2.953	0.005	0.01
8. Having higher experts' salaries than their competition	15.5	50.0	-3.076	0.003	0.01
9. Having higher average salaries than their competition	22.0	25.0	-1.251	0.216	
10. Possessing better benefits than average Croatian enterprise	32.4	60.0	-2.138	0.036	0.05
11. Providing variable part of wage/salary	68.8	100.0	-6.191	0.000	0.01
12. Determining wage/salary rate within the HR department	33.3	90.0	-5.746	0.000	0.01
13. That award innovativeness	54.5	80.0	-1.992	0.068	
14. Engaging in stock options	17.5	30.0	-1.107	0.272	
15. That have an employee profit-sharing program	34.7	77.8	-3.033	0.003	0.01
16. Allowing all employees to participate in the profit sharing program	52.0	66.7	-1.233	0.230	
17. In the last 2 years, enlarging spending on training and development compared to their operation costs	36.2	50.0	1.425	0.159	
18. That have career management program for all employees	2.5	10.0	-0.849	0.417	
19. Doing HR planning	71.3	100.0	-5.811	0.000	0.01
20. That have up-to-date job specifications	37.7	50.0	1.397	0.166	
21. That have HRIS	67.1	100.0	-6.412	0.000	0.01
22. Recruiting from universities	37.5	90.0	-5.271	0.000	0.01
23. Utilizing head-hunting agencies when recruiting	22.4	70.0	-4.274	0.000	0.01
24. With flexible working time	27.2	50.0	-1.749	0.085	
25. Conducting exit interviews	35.5	80.0	-3.339	0.001	0.01
26. Organizing recreation for their employees	30.9	70.0	-2.981	0.004	0.01
27. Organizing employee gatherings	61.3	80.0	-1.468	0.166	
28. explicitly mentioning their employees in their mission statement	21.3	44.4	-1.442	0.182	
29. Where HR director has at least university degree	80.9	100.0	3.555	0.001	0.01

^a All 80 enterprises in the sample.^b The 10 enterprises with the best HR practice.

Table 5 Summary of significantly different HR indicators between all companies and the benchmark enterprises

HR Indicators	Number of Indicators	Significant Difference Between Results for All Enterprises and Benchmark Enterprises	
		Number of Significantly Different Indicators	Percentage of Significantly Different Indicators
Quantitative	26	15	57.69
Qualitative	29	19	65.52
Total	55	34	61.82

With more enterprises in the sample, the results would be even more discouraging. It can be assumed with more enterprises in the sample there will be even greater differences between the Croatian HRM averages and best HRM enterprises because the enterprises forming the benchmark cluster are the best in HR practices in Croatia, not just the best in the sample. Furthermore, it was assumed many enterprises refused to participate in the survey because they are aware of their poor HR practices and, therefore, reluctant to expose them. In other words, almost all Croatian enterprises not ashamed of their HR practice gladly participated in the survey. Some of the HR indicators obtained and analyzed from enterprises not in the benchmark cluster were lower than those cluster enterprises and not significant; for this same reason, it is possible more HR indicators would have been defined as significantly different.

All things considered, Croatian HR practices are not developed enough and, therefore, not a solid ground for achieving a competitive advantage through people. However, the state of HRM in Croatia, which is far from the practices present in successful western enterprises, could to some extent be justified by Croatian socialistic inheritance and Croatia's adoption of free market principles only 15 years ago, but should not be the excuse for not making improvements. Hence, such state should encourage decision-makers to invest heavily in different HR activities, programs and endeavors, as there is growing evidence that HR practices influence organizational performance and enable enterprises to be competitive because of their workforce.

Finally, the data obtained through this survey demands additional analysis and fosters future research. Further analysis should proceed in the direction of aggregating HR indicators presented in this paper, in order to assess bundles of HR policies, programs and activities that differ significantly between the best and average Croatian HRM enterprises, but also to assess which bundles of HR practices are most/least developed. Secondly, the data obtained enables the exploration of HR practices in Croatia with respect to three enterprise characteristics (size of the enterprise, main enterprise activity, and ownership structure). Thirdly, the relationship between HR practices and organizational performance should be explored as a field receiving recent widespread attention in the academic and professional HR management literature. Two leading options arise for future research: (1) as this research was the second of that kind conducted in Croatia (the initial research was conducted in 2002 by Pološki Vokić (2004)), further longitudinal research is needed, not only for the purpose of progress analysis, but for the purpose of determining a

cause–effect relationship between the quality of HR practices and organizational performance and, (2) for a better assessment of the quality of HR practices in Croatia, a detailed comparison with the levels of regional practices, especially ex-transition countries, as well as advanced countries of the west, is desirable.

Conclusion

As other sources of competitive success have become less important, “what remains as a crucial, differentiating factor is the organization, its employees, and how they work” (Pfeffer 1995, p. 56). Presently, “the cliché, people are the most important resource, has actually come to mean something and management realizes that the last and clearly most effective leverage point in an organization is people” (Fitz-enz and Phillips 1998, p. ix). As a result, HRM currently plays an important role for achieving a labor competitive advantage. Indeed, “the human resources function now has the opportunity to move out of the background into the mainstream of organizational strategy and management” (Fitz-enz and Phillips 1998, p. ix).

Accordingly, the first thing Croatian business people should learn is “Achieving competitive success through people involves fundamentally altering how we think about the workforce and the employment relationship. It means achieving success by working with people, not by replacing them or limiting the scope of their activities” (Pfeffer 1995, p. 55). In other words, as “intellectual capital is the key competitive advantage in the knowledge economy, people management should naturally become an integral part of corporate strategy and a key responsibility of all managers” (Thite 2004, p. 29). More simply, “one of the critical challenges becomes to attract the attention and resources towards people issues and make every manager responsible for successful people management” (Thite 2004 p. 30). Therefore Croatian managers should recognize a robust HR system will be the most valuable asset of a twenty-first century institution and “an enterprise’s productivity is going to be closely correlated with the employee-related managerial system” (Chen et al. 2003, p. 299).

Consequently, the transformation and/or advancement of HRM should be the key to Croatia’s competitiveness. This study proves not only that HRM in Croatia is not developed enough for achieving a competitive advantage through people, but also Croatian enterprises have weak HR practices. Many Croatian enterprises encounter serious HR problems and attempt to solve them without investing in and practicing high-performance work practices despite HR’s vital role in developing and sustaining their competitive advantage.

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