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# HRM as a significant factor for achieving competitiveness through people – The case of Croatia



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# HRM as a significant factor for achieving competitiveness through people – The case of Croatia

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### **Abstract**

Traditional sources of competitiveness, such as production capacities, financial resources, raw materials, distribution channels etc., are considered necessary, but no longer sufficient for organizational success. Human resources, their knowledge, skills and competencies as well as synergy among them, become the most valuable asset, the new source of wealth, and the key ingredient of competitive advantage.

Consequently, the human resources function, which deals with recruiting, developing, and keeping the best people, now has the opportunity to move out of the background into the mainstream of organizational strategy and management. In other words, in a world in which 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.

The aim of this paper was to evaluate the quality of HRM in Croatia, as excellent HR policies, programs and activities enable enterprises to be competitive through people. Therefore, the empirical research was conducted. The population were Croatian enterprises with more than 200 employees, out of which 80 form the final sample (response rate of 14.3%). In order to assess the value of HRM, the audit approach based on HR indicators was used. 55 HR indicators (26 quantitative and 29 qualitative ones) were analyzed, using 10 Croatian enterprises as benchmarks. The list of benchmark enterprises was generated using expert method. Precisely, enterprises from the sample that have the best HR practice were identified by the best Croatian HRM theoreticians.

Results indicate that Croatian enterprises on average have insufficient HR activities. Precisely, independent samples t-test showed that 61.82% of analyzed HR indicators were significantly better for enterprises that were used as benchmarks, as well as that those enterprises have better absolute values for all of analyzed indicators. Consequently, HRM in Croatia could not be considered a solid ground for achieving competitiveness through people.

### **Keywords**

HRM, HR practices, competitive advantage, competitive advantage through people, audit approach, HR indicators, benchmarking

### **JEL classification**

M1, M12

## Introduction

Traditional sources of competitive advantage, such as production capacities, research laboratories, access to financial resources, distribution channels or economies of scale, are said to be necessary but not sufficient for success in today's business world. Everyone acknowledges that 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, pp. 45]. As we do live in a world in which knowledge, 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 & Pfeffer, 2000, pp. 1]. Researchers emphasize the role of employees in obtaining enterprise goals [Boudreau, 1997; Baird & Meshoulam, 1988], that employees are the most important enterprise asset [Quinn, 1992; Mayo, 2001], and that human capital represents the only sustainable source of competitive advantage [Hamel & Prahalad, 1994; Pfeffer, 1994; Spencer, 1995; Boudreau, 1996]. In other words, nowadays, 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, pp. 317].

Consequently, the human resource management, which deals with recruiting, developing, and keeping the best people, now has the opportunity to move out of the background into the mainstream of organizational strategy and management. In a world in which 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 & Pfeffer, 2000, pp. 257].

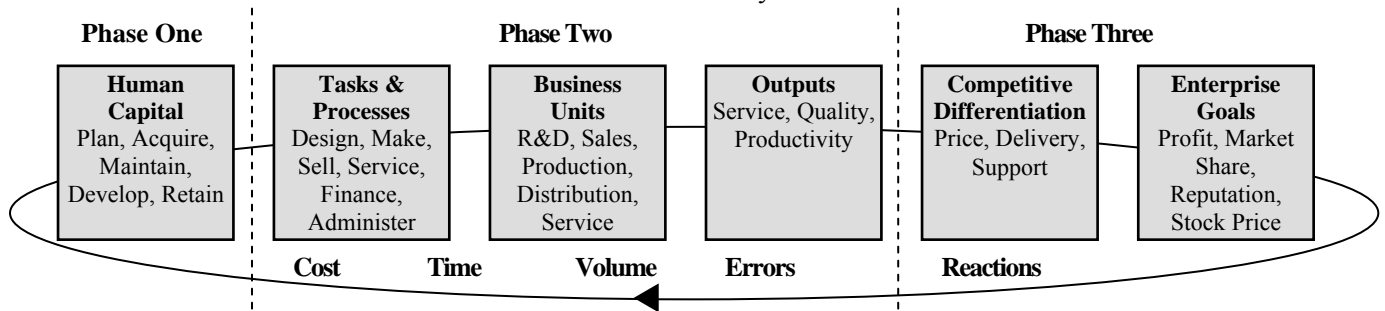
The aim of this paper was to evaluate the quality of HRM in Croatia, because excellent HR policies, programs and activities enable enterprises to be competitive through people. Namely, the trend among contemporary Croatian researchers is to determine the quality of different business activities and subsystems, in order to assess their potential of contribution to enterprise's competitiveness. For instance, the impact of following topics has been explored: regional clusters [Dragičević, 2006], product quality [Grubišić & Čerina, 2001], organizational strategies [Tipurić & Galetić, 1999; Galetić & Načinović, 2006], strategic alliances [Tipurić & Kolaković, 2002], business relationships [Žabkar & Makovec Brenčić, 2003], supply chain management [Lastrić, 2002; Tipurić & Prester, 2006], relationship marketing [Crnjak-Karanović, Pecotich & Renko, 2005], human resources [Marušić, 1999; Pološki Vokić & Frajlić, 2004], education [Obadić, Pološki Vokić & Sinčić, 2005], and leadership style [Pološki, 2001]. Hence, in order to resolve whether HRM in Croatia is strong enough to be a solid ground for achieving competitive advantage through people, the empirical study, using sample and measurement tools as principal research methods, was conducted.

Altogether, the key objectives of this research study were: (1) to provide a literature review of HRM's contribution to the achievement of competitive advantage through people, and (2) to identify the quality of HR practices in Croatia, because only strong HR practices enable enterprises to achieve competitive advantage through people.

## HRM as a support for achieving competitiveness through people – literature review

HRM in modern enterprises has two distinguished roles, or two main purposes: (1) to foster the performance of an enterprise, and (2) to act as a support for achieving competitiveness through people [Pološki Vokić, 2004, pp. 457], as phrase three in Fitz-Enz's "Data-to-value cycle" exhibits (Figure 1).

FIGURE 1  
Data-to-value cycle



Source: Fitz-enz, Jac. *The ROI of Human Capital – Measuring the Economic Value of Employee Performance*, New York: AMACOM, 2000, pp. 9.

Majority of HR scholars engage in providing evidence that sound HR systems contribute to productivity improvement, and that enterprises using approved and innovative HR practices financially outperform those enterprises that do not use them. They explore the more proven impact of strong HRM, the relationship between HR system and organizational performance, while this paper deals with the other outcome of outstanding HRM, its contribution to an enterprise’s competitiveness. In other words, in terms of Figure 2, academics prefer to examine the foremost benefit of high-quality HRM – organizational performance, and seldom take a second step of investigating its impact on organizational competitive advantage, as followers of the resource-based view do.

FIGURE 2  
The model of organizational learning and strategic HRM for sustainable competitive advantage



Source: Khandekar, Aradhana; Sharma, Anuradha. “Organizational learning in Indian organizations: a strategic HRM perspective,” *Journal of Small Business and Enterprise Development*, 12, 2, 2005b, pp. 222.

The resource-based view suggests that HR systems can contribute to sustained competitive advantage through facilitating the development of competencies that are firm specific, produce complex social relationships, are embedded in a firm’s history and culture, and generate tacit organizational knowledge [Lado & Wilson, 1994, pp. 699]. Followers of the resource-based view are striving to give evidence that development of an effective HR system can play a major role in the creation of competitive advantage through people. Specifically, many academics addressed the link between HR practices and an enterprise’s competitive advantage based on its people [Schuler & Jackson, 1987; Barney, 1991; Lado & Wilson, 1994; Wright, McMahan & McWilliams, 1994; Pfeffer, 1995; Tayeb, 1995; Boxall, 1996; Boxall, 1998]. Still, only few of them conducted field researches which proved that opportunities do exist for enterprises to develop industry leadership through people by using superior HR practices [Snell & Dean, 1992; Swiercz & Spencer, 1992; Boxall & Steeneveld, 1999; Khandekar & Sharma, 2005a].

The two groups differ in another thing. Researchers from the second group, which aimed at providing empirical evidence about possibility of achieving competitive advantage through the workforce, are likely to advocate that precisely HR competencies, capabilities and skills predict, constitute, and have a potential

to become a source of sustainable competitive advantage. As for example Khandekar & Sharma [2005a, pp. 628] state, human resource capability was found to be a significant predictor of sustainable competitive advantage. However, despite academic writing and popular belief, there is no firm evidence that enterprises with strong HR systems outperform their rivals, and is still known very little about how HRM translates into competitive advantage. Furthermore, many academics emphasize that HRM could not be a resource which contributes to a sustained competitive advantage [Wright, McMahan & McWilliams, 1994; Boxall & Purcell, 2000] because it does not meet the following conditions: (1) it is not valuable, in the sense that it exploits opportunities and/or neutralizes threats in an enterprise's environment, (2) it is not rare among an enterprise's current and potential competition, (3) it is not imperfectly imitable, and (4) there are strategically equivalent substitutes for this resource that are valuable but neither rare or imperfectly imitable [more about attributes that enterprise resources must have in order to hold the potential of sustained competitive advantages see in Barney, 1991]. They argue that HRM is doubly likely to contribute to competitive advantage, but that HRM factors are almost certainly related to an enterprise's ability to achieve competitive success through its workforce.

What the increasing body of academic researchers revealed about the relationship between enterprise's HR practices and its competitive advantage through people is summarized in Table 1 in chronological order.

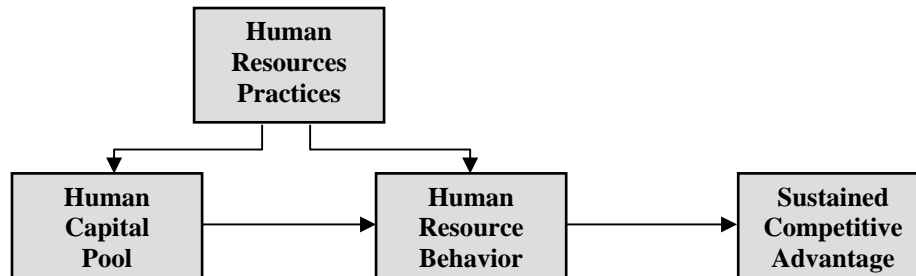
TABLE 1  
Academic findings on relationship between HRM and competitive advantage through people

Authors	Findings
Snell & 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 & Spencer [1992]	HRM is a function that could be a valuable asset and tool of corporate strategy.
Wright, McMahan & McWilliams [1994]	Having the correct mix of HR practices is a necessary condition for the maximal effectiveness of the HR capital pool.
Pfeffer [1995]	There are interrelated practices that seem to characterize companies that are effective in achieving competitive success through how they manage people.
Boxall [1996]	By hiring and developing talented staff and 'synergizing' their contribution within the resource bundle of the firm, HRM may lay the basis for sustained competitive advantage.
Boxall & Purcell [2000]	The role that HR practices may play is that of building the human capital pool and stimulating the kinds of human behavior that actually constitute an advantage.
O'Reilly & Pfeffer [2000]	Companies need cultures and systems in which great people can actually use their talents, and, even better, management practices that produce extraordinary results from almost everybody.
Bontis & 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, Liaw & Lee [2003]	HR activities are frequently acknowledged to play a central role in linking employee capabilities with the performance requirements of a firm.
Laursen & Foss [2003]	Strategy scholars have argued that human resources are particularly likely to be sources of competitive advantage and that HR practices should therefore be central to strategy.
Wright, Gardner & Moynihan [2003]	Creating competitive advantage through people requires careful attention to the practices that best leverage these assets.
Khandekar & 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 these capabilities as a source of sustainable competitive advantage. Further more, they observed that more and more organizations are designing their HR systems in a way that enable employees to use the knowledge for competitive edge.
Verreault & Hyland [2005]	Elements of human capital management are central to the successful implementation of most other management initiatives and the achieving of the firm's strategic goals.

What can be concluded from the previous is that in order for employees to fulfill their potential and act as a source of competitive advantage, i.e. contribute to the development of enterprise's competitiveness, they need to be knowledgeable and motivated. Enterprises have to continually invest in employees' knowledge, skills, motivation and behavior, as well as preserve the required number and structure of employees. To be

precise, human resources act as differentiating asset solely when wisely managed, when the strength of enterprise's HR system is unquestionable, in other words, when an enterprise has a high-performing HRM. Accordingly, the value of human resources in an enterprise can rise, maintain the same level or decline depending on the way in which those human resources are managed, as Figure 3 illustrates.

FIGURE 3  
A model of human resources as a source of sustained competitive advantage



Source: Wright, Patrick M.; McMahan, Gary C.; McWilliams, Abigail. "Human resources and sustained competitive advantage: a resource-based perspective," *International Journal of Human Resource Management*, 5, 2, 1994, pp. 318.

More to it, as Figure 3 shows, HRM does not only influence human resources behavior in an enterprise, but is crucial for development of human resources as a source of competitive advantage. Evidently, HRM proves to be the key factor for increasing employees' productivity, meaning that HR practices turn employees into resource of development, as well as into source of competitiveness. Explicitly, HRM ensures presence of competent employees that enable an enterprise to build its competitiveness, motivates those employees, concerns of their development, etc. Furthermore, a competitive advantage is not only based upon the sum of people and talents one enterprise owns, but also upon positive climate and culture of an enterprise, which is a direct output of high-quality HRM. Namely, only encouraging work climate and culture assemble individuals, conjoin their personal goals with the ones of an enterprise, create synergy, and ensure that all members of a team perform with excellent results which ultimately lead to organizational success.

Consequently, the starting point for enterprises that wish to manage their human capital successfully and which are seeking competitive success through their people, are activities of HR department. Given that employees are nowadays considered to be a basic source of competitive advantage, enterprises must find it extremely important to invest in their recruitment, selection, motivation, compensations and benefits, training and development, retention, etc., implying that they must constantly strive to enhance and develop current HR practices.

In conclusion, it can be said that HRM is playing an increasingly important role in contemporary enterprises, and that HR practices should be therefore fully integrated into their competitive management systems. Since, in a modern world, competitive advantage of an enterprise resides upon their employees, the role of HRM function should be that of a strategic partner. Using Herzberg's terminology [see Herzberg, 1966], competent employees in today's business world are "hygiene factors," while high performance work systems are "motivators".

## Research methodology

### Sample

With the intention of evaluating the quality of HRM in Croatia, all Croatian enterprises with more than 200 employees<sup>1</sup> were contacted to participate in the survey. Precisely, the questionnaire was sent to 558 enterprises,<sup>2</sup> out of which 80 returned completed questionnaire, and as such form the final sample (characteristics of the final sample are given in the Table 2).

TABLE 2  
Profile of enterprises in the final sample

	Structure (% of enterprises)
Size of the enterprise measured by 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 1000 employees (20.00%)
Main enterprise activity	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%)

Response rate of 14.3% was acceptable given that HRM research studies frequently have response rates around that number (11% response in Delery & Doty, 1996; 18% response in Cheah-Liaw, Petzall & Selvarajah, 2003). More to it, it is assumed that a quantity of Croatian enterprises was not interested in participating in the survey because they did not want to reveal that they do not deploy good people management practices, which makes the response rate even more acceptable.

### *Measures*

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

Therefore, the main body of the research instrument, which was a highly-structured questionnaire, consisted of questions upon which different quantitative and qualitative indicators of HR practice were gathered. Precisely, the research instrument encompassed five sets of questions: (1) questions concerning HR department and HR practices in general, (2) questions concerning some quantitative HR indicators, (3) questions concerning performance of separate HR policies, programs or activities (HR planning, job analysis, recruitment and selection, performance appraisal, compensations and benefits, training and development, career management, HRIS, and other HR services), (4) background characteristics of head HR manager, and (5) characteristics of the enterprise (size of the enterprise measured by number of employees, main enterprise activity and ownership structure).

Questions in the instrument were conceptualized as to collect around one hundred HR indicators, respecting the level of Croatian HR practice, and previous Croatian experiences in conducting HRM research studies [see Marušić, 1999; Pološki Vokić, 2004; Pološki Vokić & Frajlić, 2004]. In particular, some of the indicators used are not widely acknowledged when exploring HRM (such as “The existence of HR department” or “Adequateness of HR department name”), however they are relevant for Croatian HRM environment and/or likely to be collected. Namely, generally speaking, Croatian enterprises are not accustomed to gather and calculate various HR indicators. Further more, those enterprises that do keep track of different HR costs, levels or programs, seldom do it in a centralized manner. Instead, costs, levels or progress of various HR activities are tracked separately in different HR sub-departments. As well, data and information gathered are frequently not shared among those departments.

From the indicators acquired, 55 were of substantial quality for further statistical analysis. Out of them, 26 were quantitative and 29 qualitative ones. Quantitative HR indicators were either numerical values provided by enterprises or rankings of HR quality assigned by the authors of this paper. Qualitative HR



indicators were developed upon descriptions of HR activities, programs or status given by enterprises participating in the survey.

In order to evaluate the quality of HR practice in Croatia and its ability to contribute to an enterprise's competitiveness, the benchmarking technique was used. The average values of HR indicators for the whole sample (which present the general status of HRM in Croatia) were compared to corresponding values for benchmark enterprises. As benchmarks, ten Croatian enterprises with the best HR practice were used. The list of benchmark enterprises was generated out of the list of enterprises in the sample by using the expert method. Precisely, several Croatian HRM theoreticians listed and agreed on the best Croatian enterprises concerning their understanding and implementation of contemporary HRM philosophy.

The questionnaires were sent by post together with a brief covering letter explaining the importance of the research. Head HR managers, as most knowledgeable and informed people regarding HR practices in their enterprises, were asked to coordinate questionnaires' fulfillment on behalf of their enterprises.

### *Data analysis*

Upon acquiring HR data, the HRM assessment process consisted of four steps. First step was to extract HR indicators from gathered data by performing calculations and categorizations. Secondly, out of obtained indicators, those of substantial quality for further statistical analysis were selected, as explained earlier. Third step was to compute average values of different HR indicators for all enterprises in the sample, and average values of different HR indicators for enterprises with superior HR practice (the benchmark cluster), as well as to conduct independent samples t-tests to determine whether the means of two samples differ. Fourth step was the comprehensive analysis of obtained results.

Descriptive statistics calculations and independent samples t-tests were conducted using Statistical Package for the Social Sciences (SPSS).

### **Research results**

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

TABLE 3  
Quantitative HR indicators for all and benchmark enterprises  
– mean values and independent samples t-test results

Quantitative HR indicators	Mean		Independent samples t-test results		
	All enterprises <sup>a</sup>	Benchmark enterprises <sup>b</sup>	t value	Sig.	Level of sig.
1. Adequateness of HR department name <sup>c</sup>	1.85	2.40	<b>2.041</b>	<b>0.045</b>	<b>0.05</b>
2. Frequency of HR department evaluation	0.32	1.38	<b>2.800</b>	<b>0.025</b>	<b>0.05</b>
3. Quality of HR department evaluation <sup>d</sup>	1.40	2.80	<b>4.480</b>	<b>0.001</b>	<b>0.01</b>
4. HR department cost per HR employee <sup>e</sup>	323 150.12	481 387.79	1.404	0.176	
5. Percentage of employees in HR department in the total number of employees	0.86	1.97	1.491	0.170	
6. Quality of HR indicators record keeping <sup>f</sup>	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	<b>3.819</b>	<b>0.000</b>	<b>0.01</b>
10. Gross compensation cost per employee	89 989.25	139 060.08	<b>2.629</b>	<b>0.035</b>	<b>0.05</b>
11. Gross benefit cost per employee	5 366.80	10 926.72	<b>3.073</b>	<b>0.004</b>	<b>0.01</b>
12. Percentage of employees that have a variable part of their wage/salary	37.22	79.30	<b>3.605</b>	<b>0.001</b>	<b>0.01</b>
13. Training & development cost per employee	1 499.61	5 350.75	<b>3.081</b>	<b>0.018</b>	<b>0.05</b>
14. Percentage of additionally educated employees	27.45	62.60	<b>5.313</b>	<b>0.000</b>	<b>0.01</b>
15. Hours of training & development per enterprise employee	12.74	25.08	<b>3.613</b>	<b>0.007</b>	<b>0.01</b>
16. Hours of training & development 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	<b>2.293</b>	<b>0.025</b>	<b>0.05</b>
19. Percentage of employees that are performance appraised	36.49	74.23	<b>3.307</b>	<b>0.002</b>	<b>0.01</b>
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	<b>2.022</b>	<b>0.012</b>	<b>0.05</b>
22. Absent hours per employee	278.28	248.09	-0.473	0.638	
23. Total absenteeism rate	6.62	4.52	0.026	0.980	
24. Average age of employees	42.00	39.15	<b>-2.320</b>	<b>0.023</b>	<b>0.05</b>
25. Average educational level in enterprise <sup>g</sup>	0.67	0.78	<b>2.557</b>	<b>0.030</b>	<b>0.05</b>
26. Length of service in enterprise	19.27	15.03	-1.783	0.080	

<sup>a</sup> All eighty enterprises in the sample.

<sup>b</sup> Ten enterprises with the best HR practice.

<sup>c</sup> 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".

<sup>d</sup> 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).

<sup>e</sup> All financial data expressed in the table are in Croatian kuna (HRK).

<sup>f</sup> Quality of HR indicators record keeping was ranked on the scale from 0 (not even one HR indicator recorded) to 5 (almost all required HR indicators recorded).

<sup>g</sup> The average qualification structure of employees has been computed as a weighted mean, wherein 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>]. Coefficients of different educational levels used were: for basic school education – 0.50, for secondary school education – 0.65, for a non-university college degree – 0.90, for a university degree – 1.05, and for a graduate degree (master's/doctorate) – 1.40.

As evident from Table 3, 15 quantitative HR indicators, out of 26 examined, were significantly better for benchmark enterprises. Benchmark enterprises perform significantly superior when discussing quantitative aspects of HR practice in Croatia. Precisely, benchmark enterprises have significantly better, higher or more: (1) adequateness of HR department name, (2) frequency of HR department evaluation, (3) quality of HR department evaluation, (4) average monthly net wage, (5) gross compensation cost per employee, (6) gross benefit cost per employee, (7) percentage of employees that have a variable part of their wage/salary, (8) training and development cost per employee, (9) percentage of additionally educated employees, (10) hours of training and development per enterprise employee, (11) frequency of performance appraisal, (12) percentage of employees that have a variable part of their wage/salary, (13) selection ratio for highly educated employees, (14) average age of employees, and (15) average educational level in enterprise.

Remaining HR indicators are not significantly better for enterprises in the benchmark cluster, but still better in absolute values. This suggests that even though those HR practices are preformed better in cluster enterprises, the gap between the performance of those practices in Croatia on average, and equivalent practices in superior Croatian enterprises concerning HRM is not wide. The average Croatian and average cluster enterprise are equally good/bad when performing HR policies, programs and activities associated with those ten indicators.

The second part of the analysis deals with qualitative HR indicators. Mean values and independent samples t-test results for those indicators are presented in the Table 4.

TABLE 4  
Qualitative HR indicators for all and benchmark enterprises  
– mean values and independent samples t-test results

Qualitative HR indicators	Mean		Independent samples t-test results		
	All enterprises <sup>a</sup>	Benchmark enterprises <sup>b</sup>	t value	Sig.	Level of sig.
1. Percentage of enterprises that have HR department	75.3	100.0	<b>-5.239</b>	<b>0.000</b>	<b>0.01</b>
2. Percentage of enterprises that evaluate HR department	23.9	90.0	<b>-6.881</b>	<b>0.000</b>	<b>0.01</b>
3. Percentage of enterprises in which HR department participates in strategic decision making	68.1	100.0	<b>3.689</b>	<b>0.000</b>	<b>0.01</b>
4. Percentage of enterprises in which HR department has a mission statement	35.6	70.0	<b>-3.210</b>	<b>0.002</b>	<b>0.01</b>
5. Percentage of enterprises that do HR practices cost-benefit analysis	55.6	100.0	<b>-3.370</b>	<b>0.001</b>	<b>0.01</b>
6. Percentage of enterprises which have higher average wage/salary than average Croatian enterprise	39.2	80.0	<b>-2.727</b>	<b>0.008</b>	<b>0.01</b>
7. Percentage of enterprises which have higher managerial salaries than their competition	10.5	42.9	<b>-2.953</b>	<b>0.005</b>	<b>0.01</b>
8. Percentage of enterprises which have higher experts' salaries than their competition	15.5	50.0	<b>-3.076</b>	<b>0.003</b>	<b>0.01</b>
9. Percentage of enterprises which have higher average salaries than their competition	22.0	25.0	-1.251	0.216	
10. Percentage of enterprises which have better benefits than average Croatian enterprise	32.4	60.0	<b>-2.138</b>	<b>0.036</b>	<b>0.05</b>
11. Percentage of enterprises that provide variable part of wage/salary	68.8	100.0	<b>-6.191</b>	<b>0.000</b>	<b>0.01</b>
12. Percentage of enterprises that determine wage/salary rate within the HR department	33.3	90.0	<b>-5.746</b>	<b>0.000</b>	<b>0.01</b>
13. Percentage of enterprises that award innovativeness	54.5	80.0	-1.992	0.068	
14. Percentage of enterprises that have stocksharing	17.5	30.0	-1.107	0.272	
15. Percentage of enterprises that have profitsharing	34.7	77.8	<b>-3.033</b>	<b>0.003</b>	<b>0.01</b>
16. Percentage of enterprises that engage all employees in profitsharing	52.0	66.7	-1.233	0.230	
17. Percentage of enterprises that in the last two years enlarged spending on training & development compared to their operation costs	36.2	50.0	1.425	0.159	
18. Percentage of enterprises that have career management program for all employees	2.5	10.0	-0.849	0.417	
19. Percentage of enterprises that do HR planning	71.3	100.0	<b>-5.811</b>	<b>0.000</b>	<b>0.01</b>
20. Percentage of enterprises that have up-to-date job specifications	37.7	50.0	1.397	0.166	
21. Percentage of enterprises that have HRIS	67.1	100.0	<b>-6.412</b>	<b>0.000</b>	<b>0.01</b>
22. Percentage of enterprises that recruit from universities	37.5	90.0	<b>-5.271</b>	<b>0.000</b>	<b>0.01</b>
23. Percentage of enterprises that use head-hunting agencies when recruiting	22.4	70.0	<b>-4.274</b>	<b>0.000</b>	<b>0.01</b>
24. Percentage of enterprises with flexible working time	27.2	50.0	-1.749	0.085	
25. Percentage of enterprises which conduct exit interviews	35.5	80.0	<b>-3.339</b>	<b>0.001</b>	<b>0.01</b>
26. Percentage of enterprises that organize recreation for their employees	30.9	70.0	<b>-2.981</b>	<b>0.004</b>	<b>0.01</b>
27. Percentage of enterprises that organize employee gatherings	61.3	80.0	-1.468	0.166	
28. Percentage of enterprises that explicitly mention their employees in their mission statement	21.3	44.4	-1.442	0.182	
29. Percentage of enterprises which have chief HR manager with at least university degree	80.9	100.0	<b>3.555</b>	<b>0.001</b>	<b>0.01</b>

<sup>a</sup> All eighty enterprises in the sample.

<sup>b</sup> Ten enterprises with the best HR practice.

Similar to results for quantitative HR indicators, the majority of qualitative HR indicators are significantly better for benchmark enterprises, as evident from the Table 4. To be precise, 19 qualitative HR indicators, out of total 29, are marked as significantly better. Specifically, between benchmark enterprises there is significantly higher percentage of: (1) enterprises that have HR department, (2) enterprises that evaluate HR department, (3) enterprises in which HR department participates in strategic decision making, (4) enterprises in which HR department has a mission statement, (5) enterprises that do HR practices cost-benefit analysis, (6) enterprises which have higher average wage/salary than the average Croatian enterprise, (7) enterprises which have higher managerial salaries than their competition, (8) enterprises

which have higher experts' salaries than their competition, (9) enterprises which have better benefits than average Croatian enterprise, (10) enterprises that provide variable part of wage/salary, (11) enterprises that determine wage/salary rate within the HR department, (12) enterprises that have profitsharing, (13) enterprises that do HR planning, (14) enterprises that have HRIS, (15) enterprises that recruit from universities, (16) enterprises that use head-hunting agencies when recruiting, (17) enterprises which conduct exit interviews, (18) enterprises that organize recreation for their employees, and (19) enterprises which have chief HR manager with at least university degree.

Again, as with quantitative HR indicators, the remaining qualitative HR indicators are, in absolute terms, better for benchmark enterprises. The percentage of enterprises from the benchmark cluster that are characterized by those HR practices is higher than that percentage in Croatia on average. On the other hand, although benchmark enterprises perform those HR practices more commonly, those practices are not significantly more present in the benchmark cluster.

Table 5 reveals the summary of significantly different quantitative and qualitative HR indicators between all enterprises in the sample (which represent the average status in Croatia), and benchmark enterprises (those with the best HRM).

TABLE 5  
Summary of significantly different HR indicators between all and 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%

As Table 5 depicts, out of 56 analyzed HR indicators, 34 of them (15 quantitative and 19 qualitative) are significantly better for benchmark enterprises. In other words, 61.82% of explored indicators are significantly better for benchmark enterprises. Furthermore, when looking at absolute mean values, those enterprises have better values for all observed HR indicators. Although this outcome is obvious since the benchmark cluster is constituted of enterprises with the best HR practice, benchmark enterprises were not supposed to be significantly better, especially having in mind that average results for Croatia include as well those enterprises. Therefore, the convincing reason that HR practice in Croatia is not developed is the fact that there are significant differences for the majority of observed HR indicators between benchmarks and average Croatian enterprise. If those differences proved not to be significant, then it could be concluded that HR practice in Croatia is in fact developed, because mean values for enterprises representing Croatia are not significantly different from values that characterize best Croatian enterprises in terms of HRM.

The conclusion that HR practice in Croatia is not developed relies not only on significant differences found, but on the fact that, when analyzing values of different HR indicators, it is evident that HRM in Croatia is not even near practices and standards existing worldwide. Sadly, even when analyzing HR practices in enterprises that form the benchmark cluster, the results are far from what is considered a developed HR system present in an average western enterprise.

Another factor to consider is the fact that, knowing the state of Croatia's HR practice, with more enterprises in the sample, the results would be even more discouraging. Likewise, it could be assumed that with more enterprises in the sample there would be even greater differences between Croatian averages and best enterprises, due to the fact that enterprises which form the benchmark cluster are not only the best in the sample but as well the best in HR practice in Croatia. Furthermore, as stated before, it is presumed that the main reason many enterprises refused to participate in the survey is the fact that they are aware of their

poor HR practice and therefore reluctant to expose it. In other words, almost all Croatian enterprises which are not ashamed of their HR practice gladly participated in the survey conducted. Because of the same reason, for few of the analyzed HR indicators, number of answers obtained from enterprises not in the benchmark cluster, compared to the number of answers from cluster enterprises, was lower, and could be the reason why even more HR indicators were not identified as significantly different.

All things considered, the conclusion that Croatian HR practice is not developed enough and therefore could not be a solid ground for achieving competitive advantage through people could be deduced. However, the state of HRM in Croatia, which is far from the practice present in developed countries of the west, could to some extent be justified by Croatian socialistic inheritance and the fact that Croatia adopted principles of free market only 15 years ago, but should not be the excuse for not making improvements. Hence, the state of HRM in Croatia 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 people.

## 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, pp. 56]. Nowadays the cliché that people are the most important resource has actually come to mean something, and management realized that the last and clearly most effective leverage point in an organization is people [Fitz-enz & Phillips, 1998, pp. ix]. As a result, HRM these days indeed plays an important role in achieving competitive advantage through people. More to it, the human resources function now has the opportunity to move out of the background into the mainstream of organizational strategy and management [Fitz-enz & Phillips, 1998, pp. ix].

Accordingly, the first thing Croatian business people should learn is what Pfeffer preaches for a decade: "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, pp. 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, pp. 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, pp. 30]. Therefore Croatian managers should recognize that the robust HR system will be the most valuable asset of a twenty-first century institution, and that an enterprise's productivity is going to be closely correlated with the employee-related managerial system [Chen, Liaw & Lee, 2003, pp. 299].

Consequently, the transformation and advancement of HRM in Croatia should be the key to its competitiveness. Namely, this study proves not only that HRM in Croatia is not developed enough to be a firm ground for achieving competitive advantage through people, but as well that Croatian enterprises have weak HR practices. Many Croatian enterprises encounter serious human resource problems and do nothing about it in terms of investing in and practicing high-performance work practices, while at the same time these human resources play a vital role in developing and sustaining their competitive advantage.

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<sup>i</sup> Although according to Collins, Smith & Stevens [2001, pp. 13] enterprises with 50 and more employees should have formal HR system, and therefore are eligible for HR evaluation, having Croatian practice in mind, the population of this study were Croatian enterprises with more than 200 employees. Namely, it is assumed that in Croatia only enterprises with more than 200 employees have HR policies, programs and activities developed enough to be surveyed.

<sup>ii</sup> 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](http://www1.biznet.hr/HgkWeb/do/extlogon?lang=hr_HR)].