

INVESTMENTS IN EMPLOYEES: ATTITUDES AND PRACTICES IN CROATIAN ENTERPRISES

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Abstract:

Investments in employees and creation of 'human capital' are among the most researched aspects of modern human resources management. Education and training of employees, creating new knowledge and skills, and developing employee motivation, are the crucial elements of investments in employees. That should positively affect creation and maintenance of enterprise's competitive position, and eventually significantly contribute to enterprise's overall performance. This paper is based on a research performed on a sample of 47 Croatian enterprises from electro-informatics industry. Preliminary results show that those enterprises have quite strong awareness of importance and need for investment in people. Moreover, management of those enterprises gives higher importance to the investment in people than to the investment in 'tangible assets'. Although a direct (significant) correlation between investments in people and enterprise financial performances has not been found, a significant correlation between investments in people and competitive abilities of the enterprise has been found.

Keywords: investment in people, competitive position, organizational performance

1. INTRODUCTION

Investing in people is today probably the best way to increase productivity and improve performance on all levels in the enterprise and larger. Investing in people can be realized in different ways and through different activities. We can generally speak about direct and indirect investment in people (Bahtijarević Šiber, 1999): direct as those which directly increase employees' skills and capabilities, and indirect as those which motivate employees to search the ways to develop and better apply their skills and capabilities.

Through material and non-material strategies of motivation different aspects of employees' behavior can be stimulated in order to increase performances and benefits to the enterprise. Still, in this paper, we will consider primarily one specific aspect – investing in knowledge of employees.

In the new, knowledge based economy, knowledge acquired and applied by employees becomes the key factor of success. Individuals, enterprises, and societies invest in knowledge development, transfer, and use, and those who succeed best become winners in the big race for market success. Instead on material and financial resources, leading companies today relay on and develop INTELLECTUAL CAPITAL (Sundać and Švast, 2009).

Most developed economies in the world create largest part of their GDP in industries based on knowledge, like information and telecommunication technologies, biotechnologies and pharmaceuticals, new materials and technologies, etc. (Dragičević, 2002). Not only individual employee knowledge, but organized and synergic use of knowledge of all employees enables modern enterprise to achieve superior results (Porter, 2008). The concept of 'learning organization' has been developed and confirmed over last 20 years. To become a learning organization, an organization based on acquiring, development, distribution and use of knowledge, an enterprise has to invest in the knowledge and competences of its employees, but also in the systems of knowledge management, data and knowledge bases, and eventually in new knowledge creation and use as the basis for achieving and retaining competitive advantage.

Fundamental reasons why interest for knowledge and knowledge management has been rising over last decades can be found in (Skyrme, 2014):

- **Globalization and competition** – more and more organizations rely on knowledge to create their strategic advantage.
- **Knowledge can command a premium price in the market** - applied know-how can enhance the value (and hence the price) of products and services.
- **Restructuring and downsizing** - without effective mechanisms in place to capture knowledge of experienced employees, organizations make costly mistakes or have to pay again for knowledge they once had on tap.
- **Sharing of best practices** - companies save millions a year by taking the knowledge from their best performers and applying it in similar situations elsewhere.
- **Successful Innovation** - companies applying knowledge management methods have found that through knowledge networking they can create new products and services faster and better.

To build and effectively use their intellectual capital, organizations have to transform their entire organizational structure. Instead of rigid hierarchical organizational structures and management based on strict control and authoritarian leadership, new structures based on horizontal networking, participation and team work are being developed. Only such new and flexible structures will enable full scope of knowledge acquiring, creation, sharing, and eventually productive and profitable use in the organization. Moreover, organizations need to develop specific structures for knowledge management. And eventually, not only organizational structures, but organizational culture and climate have to be built in the way to stimulate and support knowledge management and use.

2. INVESTMENT IN EDUCATION AND TRAINING IN THE MODERN ENTERPRISE

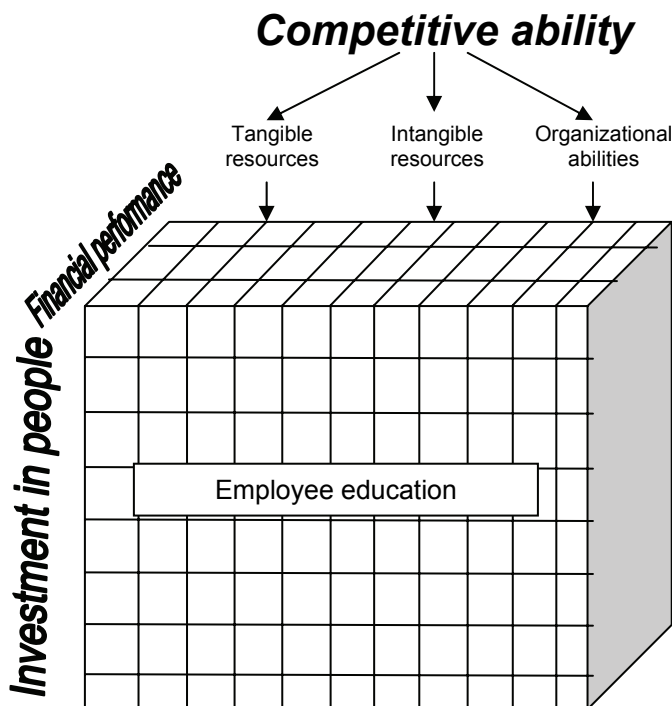
Employee education and training is definitely an essential part of intellectual capital creation in a modern enterprise. Regular education does not give complete and final knowledge for one's entire working life. Development of technology, markets, and organization requires always new and updated

knowledge and skills, which cannot be only the concern of the individual employee, but has to be organized, coordinated and supported by the enterprise.

Developing and strengthening knowledge and skills of its employees, enterprise is building its competitive abilities. Three main areas on which competitive abilities (and competitive advantages) are based can be found in tangible and intangible resources, and enterprise's organizational abilities to utilize those resources. Different activities in the area of human resources management can be considered as investments in people – investment in employee training and education among them. Investing in people directly influences competitive ability – not only by developing intangible assets, but also by developing organizational abilities and tangible resources. Competitive abilities and investments in people influence decisively on final results, i.e. financial performance of the enterprise. Combining all these three dimensions, a global model of connections between investment in people, competitive ability and business results (financial performance) can be conceived as shown on the Picture 1. This model is obviously quite complex, indicating existence of different relationships and paths of influence between elements from all three dimensions.

The research presented in this paper was focusing on the influence of investments in employee education on competitive ability and financial performance. Employee education is primarily enriching intangible resources (intellectual capital), but also contributing to effective use of tangible resources. Employee education raises organizational abilities, but in the other hand, strong organizational abilities are needed to support employee education and training and transfer of its results to business operations. Eventually, all these processes, if well matched and coordinated, should lead to increased performances.

Picture 1: Model of interdependence between elements of competitive abilities, investment in people, and enterprise's financial performances



Source: Authors.

3. INVESTMENT IN PEOPLE IN CROATIAN ENTERPRISES

This research was conducted on a sample of enterprises from the field of electro-informatics. That industry, comprising enterprises producing electric appliances and tools, electronic equipment (including computers), and software development, employed in 2010 year 36.729 employees, which

made 3.14% of total employment in Croatia.¹ This industry was chosen because it is large enough to show diversity among enterprises, but still homogenous enough to allow comparison between enterprises.

Survey, consisting of a number of closed questions (with responses offered on a 5-level scale), was sent to 272 largest enterprises (by total turnover) in this industry. Eventually, 47 valid questionnaires were returned, which gave a response rate of 17.27%. That response rate was slightly above average response rate in similar researches in Croatia (15%), so the sample could have been considered relevant.

The survey was investigating different aspects of human resource management, strategy and strategic management, competitive position and abilities, and business performances in the surveyed enterprises. Only some of the survey results have been used in this paper. The primary aim of this work was to investigate relationship between investments in people and enterprise performances.

Investments in people were considered from different aspects and through various activities. For the purposes of analysis in this work, researched aspects were divided in two broad groups (categories): organizational aspects and economic aspects. Organizational aspects that describe scope and quality of investments in people and their values can be viewed in the Table 1.

¹ Croatian Bureau of Statistics, Release no.9.2.1/1; 28.February.2012
http://www.dzs.hr/Hrv_Eng/publication/2012/09-02-01_01_2012.htm (accessed 01.04.2014).

Table 1: Organizational aspects of investment in people

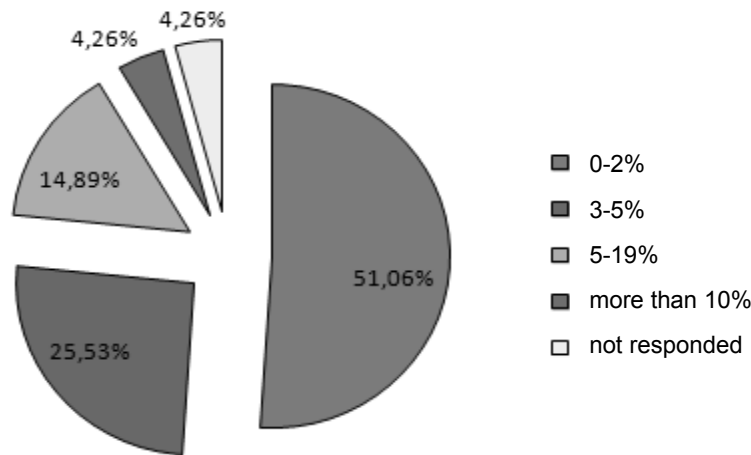
	Valid	Mean	Std. Error of Mean	Median	Mode	Std. Deviation	Percentiles		
							25	50	75
Human resources management system quality	47	3,74	0,173	4	4	1,188	3	4	5
Quality of the system for documenting knowledge in data bases and other information systems	47	4,36	0,131	5	5	0,895	4	5	5
Using modern technologies and information systems efficient exchange of knowledge and information among employees is enabled	47	4,66	0,088	5	5	0,600	4	5	5
A strategic plans of training and development of employees exists	47	3,94	0,162	4	4	1,111	4	4	5
A plan for career development exists for most employees	47	3,40	0,176	4	4	1,210	2	4	4
Management supports education of all employees	47	4,55	0,117	5	5	0,802	4	5	5
Development of key employees is realized within the enterprise	47	4,19	0,135	4	4	0,924	4	4	5
Skills and competences necessary for the jobs are defined and certified	47	3,91	0,177	4	4	1,213	4	4	5
Organizational climate is favoring transfer of knowledge and experiences among employees	47	4,62	0,089	5	5	0,610	4	5	5
The enterprise uses mentorship as the tool for introducing new employees to their jobs	47	4,55	0,109	5	5	0,746	4	5	5
Organizational aspects of investment in people (average)	47	4,19	0,095	4,4	4,70	0,655	3,9	4,4	4,7

Source: Research results.

Although values (average marks) that received particular aspect vary from 3.40 to 4.66 (on the scale from 1 to 5), overall average mark of 4.19 can be considered as very good. That would mean that surveyed enterprises put quite a lot of organizational efforts into employee development programs and activities.

First indicator of economic aspects of investment in people can be, of course, direct, financial expenses for education and training. Asked about expenses for different forms of employee education and training as the share of total turnover, more than 50% of surveyed enterprises answered it was less than 2%. More than 75% of responding enterprises invested less than 5% in employee education, but there were several enterprises investing more than 10%. Distribution of answers (45 out of 47 surveyed enterprises answered this question) is given on the Picture 2.

Picture 2: Share of the turnover that the enterprise is investing in employee training



Source: Research results.

Besides direct expenses for employee education and training, various other aspects that showed enterprise's direct and indirect material and financial support of employees' education were assessed. Economic aspects quality of investments in people and their values can be viewed in the Table 2.

Table 2: Economic aspects of investment in people

	Valid	Mean	Std. Error of Mean	Median	Mode	Std. Deviation	Percentiles		
							25	50	75
Enterprise has a developed motivation reward system with clear criteria	47	3,57	0,189	4	4	1,298	2	4	5
Enterprise supports lifelong education of its employees	47	4,36	0,137	5	5	0,942	4	5	5
Enterprise gives opportunity to its employees to attend professional events (seminars, conferences ...)	47	4,34	0,137	5	5	0,939	4	5	5
Enterprise provides and supports informal education of its employees	47	4,30	0,155	5	5	1,061	4	5	5
Enterprise stimulates employees with big experience to transfer their knowledge to younger employees	47	4,38	0,151	5	5	1,033	4	5	5
Enterprise directly pays for professional education of its employees according to the needs and plans	47	4,43	0,132	5	5	0,903	4	5	5
All employees (not only managers) are involved in the education programs	47	4,66	0,123	5	5	0,841	5	5	5
More than 50% of expenses for education is spent on non-managerial employees' training	47	3,64	0,196	4	5	1,342	2	4	5
Economic aspects of investment in people (average)	47	4,21	0,095	4,38	4,25	0,649	4	4,38	4,75

Source: Research results.

Average values (marks) for these economic aspects of investment in people were even slightly higher than those obtained for 'organizational' aspects. That would indicate that enterprises are aware that investment in people should not remain just declarative, and are ready to give it real, material value.

Total (average) mark of these aspects is 4.21 – which is significantly above the notion of ‘very good’. The statement with the best marks was that ‘*All employees (not only managers) are involved in the education programs*’, but the lowest marks received the statement that ‘*Enterprise has a developed motivation reward system with clear criteria*’. That could indicate that thoroughly systematic approach to activities and programs of support for employee training and education as a part of entire human resources management is often neglected.

Connecting results from both organizational and economic aspects, it could be concluded that enterprises that responded to this survey invest in employees’ development – not only as formal and sporadic activities, but as a strategic need and organizational orientation. If 47 enterprises that responded to this survey are considered representative for the whole industry, which could be consistent with the character of this sector. Knowledge and technologic development are crucial factor of survival and success in this industry. Croatian enterprises have probably recognized that. Still, the next question is whether such attitude and behavior is reflected in the market success and business results.

4. INVESTMENT IN PEOPLE, COMPETITIVE ABILITIES AND FINANCIAL PERFORMANCES

To explore relationship between investments in people and financial performances, different indicators of financial performances for surveyed enterprises have been collected. Most characteristic values of those basic indicators of financial performances are presented in the Table 3.

Table 1: Indicators of financial performance

	Valid	Mean	Median	Std.Deviation	Percentiles		
					25	50	75
Total turnover (kunas)	47	147.549.423,47	18.106.726,00	30.579.700,00	4.943.535,00	18.106.726,00	101.258.845,00
Net profit (kunas)	47	14.631.597,89	497.990,00	56.532.819,25	87.274,00	497.990,00	3.951.844,00
Net profit margin (%)	47	6,84	3,95	7,64	1,24	3,95	10,55
ROA (%)	47	9,79	3,65	13,74	1,06	3,65	12,85
ROE (%)	47	25,14	13,00	30,50	2,83	13,00	44,68

Source: Research results.

Basic descriptive statistics of financial performance indicators shows quite wide dispersion of values. Total turnover variation can be explained to a large extent by the variation in size of surveyed enterprises. Variations of other indicators are even larger because, obviously, they depend not only on the size, but also on efficiency of resources use and market strategies. Quality of human resources, investment in human resources development can definitely be a decisive factor in that sense.

To analyze possible correlation between investment in people and competitive ability of the enterprise, composite indicators of tangible resources development, intangible resources development, and organizational abilities level have been created for surveyed enterprises. Based on these three indicators, indicator of (total) competitive ability has been calculated. Then, correlations with the average marks of organizational aspects, economic aspects, and overall investment in people have been tested. The results of this analysis have been presented in the Table 4.

Table 4: Correlation between investment in people and the components of competitive abilities

			Tangible resources development	Intangible resources development	Organizational ability level	Overall competitive ability
Spearman's rho	Organizational aspects of investment in people	Correlation Coefficient	0,307*	0,343**	0,378**	0,327**
		Sig.(1-tailed)	0,019	0,010	0,005	0,014
		N	46	46	45	45
	Economic aspects of investment in people	Correlation Coefficient	0,198	0,289*	0,287*	0,305**
		Sig.(1-tailed)	0,093	0,026	0,028	0,021
		N	46	46	45	45
	Overall level of investment in people	Correlation Coefficient	0,252*	0,370**	0,353**	0,343*
		Sig.(1-tailed)	0,045	0,006	0,009	0,011
		N	46	46	45	45

** Correlation is significant at the 0,01 level (1-tailed)

*. Correlation is significant at the 0,05 level (1-tailed)

Source: Research results.

Correlation analysis gave results that very strongly supported initial idea that investment in people (in the broader sense) significantly contribute to increase of competitive ability and its components. When overall level of investment in people is considered, slightly higher correlation with intangible resources development is completely understandable. Moreover, one would expect that difference to be even higher. Slightly higher correlation of organizational aspects of investment in people with the organizational ability level is also completely logical.

And finally, probably most interesting finding of this analysis is that better correlation was found between organizational aspects of investment in people and competitive ability than between economic aspects of investment in people and competitive ability in all aspects. This could indicate that good strategy, organization and coordination of employee education and training are more important than the mere economic value of those investments.

In the second step, correlation of organizational aspects, economic aspects, and overall investment in people with the indicators of enterprise business performances has been tested. The results of this analysis have been presented in the Table 5.

It is visible on the first sight that, for the difference from the previous analysis, this one did not produce virtually any interesting correlation. All correlation coefficient are very low, with no significance. Only one combination – correlation between organizational aspects of investment in people and total turnover had significance level under 0,05, but its correlation coefficient was low (0,258). As previously was concluded that turnover could be primarily related to the size of the enterprise, conclusion here could be that larger firms generally tend to have better organization (and stronger organizational efforts) of human resources development (education, training, etc.) and better human resources, which is then affecting their turnover too.

Just as a curiosity could be considered negative signs with correlation coefficients (extremely small and insignificant, anyway) between organizational aspects of investment in people and net profit margin, ROA and ROE. If that would be (very, very weak) indication that firms which invest more in development of systems for employee education planning and support can see their relative efficiency

reduced, the explanation could be that these efforts (investments) do not contribute directly to higher working and business performances, but can mean a waste of resources that could have been better used in other areas.

Table 5: Correlation between investment in people and enterprise business performances

			Total turnover	Net profit	Net profit margin	ROA	ROE
Spearman's rho	Organizational aspects of investment in people	Correlation Coefficient	0,258*	0,143	-0,053	-0,081	-0,128
		Sig.(1-tailed)	0,040	0,169	0,362	0,295	0,196
		N	47	47	47	47	47
	Economic aspects of investment in people	Correlation Coefficient	0,101	0,198	0,153	0,188	-0,065
		Sig.(1-tailed)	0,249	0,091	0,153	0,103	0,332
		N	47	47	47	47	47
	Overall level of investment in people	Correlation Coefficient	0,224	0,139	0,001	0,027	-0,065
		Sig.(1-tailed)	0,065	0,175	0,497	0,430	0,332
		N	47	47	47	47	47

** Correlation is significant at the 0,01 level (1-tailed)

*. Correlation is significant at the 0,05 level (1-tailed)

Source: Research results.

The fact that correlation between different aspects of investment in people and enterprise financial performances was not found should not be interpreted in the sense that such a relationship does not exist. More plausible explanation could be that that relationship is too complex and moderated by too many other factors, so it cannot be discovered with certainty through a limited and relatively simple research like this one.

5. CONCLUSIONS

Summarizing results of this research, several main conclusions could be drawn:

Investment in people in enterprises includes in this research (enterprises from the 'electro-informatics sector') have got quite good position and attention. Not only that more than 50% of enterprises invests more than 50% of their turnover in employee education and training, but also organizational systems and efforts to support employee development are significantly developed. However, authors' experience warns that we should be very cautious with generalization of these findings. Even if results of this research could be representative for the whole sector, they definitely cannot be considered as representative for Croatian enterprises in general. The 'electro-informatics sector' is generally based and oriented on knowledge use and development, very competitive and pressure from (international) market are very strong. For all that, enterprises in this sector are much stronger than other Croatian enterprises aware and oriented to knowledge development and utilization as the key strategic direction.

Enterprise competitive abilities are significantly developed in enterprises covered by this research. Out of three areas fundamental for the building of competitive ability, development of intangible resources is receiving highest attention, followed by development of tangible resources, while development of organizational abilities holds last position but still significant attention. Once again, this can be explained by, but also taken as the confirmation of, the fact that this is a very competitive sector, and

enterprises are simply compelled to invest in the development of all aspects of their competitive ability and especially in 'organized knowledge'.

Statistically significant correlation between investment in people (as a set of organizational and economic activities) and enterprise competitive ability (and its key components) found in this research confirms clearly that people, knowledge and skills they are carrying, developing and using, should have position of the major element of strategic orientation in modern enterprises. Within that, the need for a complex, systematic approach in developing knowledge and human resources as a whole, has been visible from the results of the research. It is not enough to 'simply' invest money and material resources in employee education. Organizational systems to support learning in organization and integral use of knowledge should be established and developed. Only then full effect of investment in people could be expected and obtained.

The fact that this research could not find and confirm direct correlation between investment in people and enterprise financial performance cannot be taken as the proof that such a relationship does not exist. First of all, this can be explained by very complex and long process that transforms knowledge and skills of employees into the business (financial) resources. And then, that should be taken as an incentive for further and deeper researches in this field.

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