

# ACHIEVING COMPETITIVE ADVANTAGE OF A COMPANY THROUGH EFFICIENT MANAGEMENT OF WAGES AND EMPLOYEE REWARDS

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## Abstract

*This paper discusses the correlation between the model of remuneration of employees and the competitive advantage of a company. Business performance of each company is closely linked with the profile of staff represented in the company and the properly planned and executed strategy and policy of wages and rewards. In conditions of market economy, where the efficiency of work and dedication of employees guarantees improvement of business processes and business performance improvement of a company, great importance is given to the selection of an appropriate system of rewards. By choosing a system of rewards that meets the expectations of employees, the basic preconditions of a successful business are created; since only a motivated and satisfied employee guarantees the efficiency and competitiveness of a company.*

*In the highly competitive environment a company needs to focus on the achievement of a specific, sustainable competitive advantage, because it is the key to long-term profitability. A well-defined and transparent management system of wages and rewards allows for an increase in business performance by rewarding the extra effort of employees in achieving set objectives.*

**Keywords:** competitiveness, intellectual capital, the wage system, reward, wage as a form of compensation, human resources.

JEL Classification: H21, D61, G14

## 1. INTRODUCTION

The majority of Croatian companies, especially those inherited from the socialist socio-economic system, are insufficiently effective in an increasingly complex and competitive Croatian economic environment. In this regard, it is important to emphasize the need for radical improvements in efficiency of Croatian companies. In the most developed economies of the world, more than half of gross domestic product is based on knowledge. Industries such as telecommunication, computers and software, i.e. high technology industries, nearly doubled their share of the output in the last twenty years, while the knowledge-based services are growing even faster (Dragičević, 2002, 5 to 6).

Business performance of each company is closely linked with the profile of staff represented in the company and the properly planned and executed strategy and policy of wages and rewards. Policy and strategy of salary management should be permanently implemented in order to improve the results of a company and raise the level of competitiveness.

The basic need of every ambitious worker is that his/her work is recognized and rewarded, while the primary goal of every employer is to employ a satisfied and motivated worker. The goal of a successful system of wages and rewards is to meet the needs of employees and employers. It is important that wages are dependent on the results of the work, of the individual and the company as a whole. A characteristic of such a system is that, on the basis of achieved results, it encourages the spirit of competition between employees, but also has a stimulating and motivating effect on their work. Creating a positive atmosphere within the company will contribute to the retention of existing successful staff, as well as attract new needed employees.

An important feature of the system of rewards should be its simplicity and user-friendliness to all concerned. In the event that employees do not understand the benefits that the system offers them, it is necessary to make changes and adjust the system to the employees for which it is intended. Therefore, the success of the system of rewards will depend on the availability and user-friendliness of the system towards the employees.

The fact is that intellectual capital is positioning itself as an important determinant of competitiveness, or competitive advantage of modern enterprises. Traditional resources are insufficient to maintain a competitive advantage, which is why more attention is placed on to the components of intellectual capi-

tal. What is intellectual capital? 'Intellectual' indicates that the source of this capital is the intellect, i.e. knowledge in various forms: physical form (plans, designs, patents, licenses, databases, computer programs... → explicit knowledge) and immaterial form – in the minds of employees (knowledge, vision, ability to function, problem solving, leadership, experience... → tacit knowledge).

The 'management' of intellectual capital refers to the fact that the activities of the company should focus towards the future, i.e. to strengthen the abilities of the company, and remove weaknesses. In other words, the business should constantly improve. The goal of the management of intellectual capital is to turn immaterial knowledge into material. Managing intellectual capital must not be a purpose in itself, but it must always be focused on the creation of value.

Managing of intellectual capital is implemented due to competitive advantages, rising of productivity, increase of market value, focusing of activities towards the future, long-term improvement of skills, care and improvement of invisible, but for the future performance, key factors. The approach to management of intellectual capital, as a key resource of modern business, is interdisciplinary and systematic. We focus first of all on effective management of intangible values, and factors within the company that improve intellectual property, with the ultimate goal of reaching competitive advantage and excellence at the world level. The value of a company does not only include physical and financial capital, but also includes intellectual capital to a large extent.

Correlation of the wage system (remuneration) as a motivational resource/tool to competitiveness of companies is not sufficiently explored in the broader context of the competitiveness of companies, which was the main reason for the formulation of these topics. Researchers in the field of defensive competitive advantages of companies came to the conclusion that what a company knows, the way it uses its knowledge and the speed at which it can adopt new knowledge, is the only thing which can provide a consistently defensible competitive advantage. The main factor of competitive advantage and the ability of the company in the market today are the employees. Their needs, motivations and satisfaction are the focus of science and practice and have been the object of numerous studies and analysis.

Numerous literature and business practices of larger companies to date have established **various forms of employee incentive schemes** such as the possibility of promotion and acquisition of attractive jobs, education and training,

traveling, developing contacts, the use of a corporate car, sliding working hours, etc., financial categories such as incentives, bonuses, royalties, business cards, insurances, loans, participation in profit gained or, ultimately, entering into a partnership with the employer. According to the findings from theory and practice, there is no single good model of rewards. However, there are different solutions, experiences and great opportunities to create systems and models. The fundamental purpose of the rewards system is that the system generates the desired behaviour of employees in the function of creating competitive advantages of the company.

The aim of employee rewards is to exactly match individual interests of employees and the strategic goals of the company. In order to ensure adequate quality of employees in the company, it is necessary to provide an adequate level of earnings, but it is only one of the necessary conditions. Much-needed additional motivation of employees is achieved by other, non-material forms of rewards.

Because of all this, we can say that today the money is indispensable, but not a sufficient motivating factor, as well as not equally important to all employees in every situation. The requirement for employee satisfaction is, without a doubt, the salary. It guarantees an adequate standard, although the atmosphere in the workplace is often among the top priorities of many employees. The wage model mainly consists of three basic goals: (1) strategic wage goals, (2) strategic policy which forms the basis of wages and (3) techniques of wages (Milkovich, Newman, 2005, 37).

In the wage system, as a strategic element of wage policy the wage model should include: (a) internal order, (b) external competitiveness, (c) the employee contributions and (d) wage system management. These are essentially the basic elements for the construction of the wage system. In many companies the choice of the wage system is market-driven, and that is mainly driven by competitive salaries. External competitiveness refers to the relation of wages between companies, and focuses on the competitive position that this relationship reflects (Milkovich, Newman, 2005, 724).

The basic condition for ensuring the vitality of a company and the ability to respond to the increasingly sophisticated demands is its capability of creating and maintaining a competitive advantage based on value.

## 2. DIVISION AND CHARACTERISTICS OF WAGE SYSTEMS

Throughout the history the employee received a fee for his work, and through the development of human society the forms of these fees were various. In the earlier stages of development of human society the reward was food, housing and other human needs that could be met at the lowest level. The development of the entire society, including economic relations, money becomes the primary means of payment, or a key form of remuneration for work done.

With the advent of the market economy the money became almost exclusively the means of payment, i.e. means of payment in the relationship of the employer and the employee. That is why, when we talk about wages, rewards are usually expressed in money, although the term wage includes all, not just monetary forms of giving. In sporadic cases bartering and natural exchanges may exist in small part, be it material or immaterial.

In the concept of wages we start from money as a medium of exchange in contemporary relationships that expresses the equivalent value of what the subject of the exchange was. It is an essential feature of all forms of administration of wages that the rewards for work are defined by the duration (time payment), or working results or performance (performance-related pay).

### WAGE AS A FORM OF COMPENSATION

The fee that the employer gives in cash, as well as any other non-monetary form is compensation or reward for the appropriate employee's work. Therefore, the salary can be defined as a compensation category that is derived from the relationship between the employer and the employee on the basis of engagement which is expressed in some form of measurable results.

The term wage is differently defined depending on the purpose this definition is trying to achieve, and in the economic literature it is defined in several different ways:

- The wage is a reward for work done.
- The wage is a tribute for the work.
- The wage is the price term of socially recognized labour costs.
- The wage is the reproductive value to the work used.
- The wage is the price of labour, i.e. value expressed in money.

The first two definitions of wage have microeconomic character unlike the other definitions that have a macroeconomic, i.e. a political-economic character. From this we can extract a definition according to which the salary is an “amount of money that the employer must pay an employee for work that he/she had done for him/her for a certain period of time” (Enciklopedija leksikografskog zavoda, 1969, 149).

In addition to cash payments, there are non-cash payments by check, checking accounts, savings, securities, stocks, and more recently in goods. Salary is related to employment. However, payments to individuals who are not employed were once not treated as wages, and today such cases still exist.

The time for which salaries are paid is usually a month, and somewhere it is the week, especially in developed countries where the weekly calculation and payment is not paid in full, such as the share of the profits which is annual.

Salary is contained in several components, most often it is a wage for work done, salary compensation and a share in the profits.

The salary for work performed is related to the execution of the assignment of the individual and it is a complex term, which consists of the basic salary, incentive part of the salary and the addition to the basic salary. These parts of wages are not of uniform size, but the summation of various sizes.

The basic salary is the product of an hourly rate and realized working hours, while the incentive part of the salary consists of two basic sources, accords and premiums. Accords are different; there are individual and group accords, i.e. the premiums from the standpoint of the number of participants. Accords can be time, quantity and cash. Premiums are divided into those for the quantity, quality, cost savings, time limits, utilization, diligence, and combined premium systems (Baierl, 1965, 31).

Additions to base salaries differ whether individual or group; we have additions for length of service, additions for continuity in the company, food supplements, and additions for transportation, and others with an economic and social character.

The wage fee is the one part of the salary that the employee is entitled to in certain cases when not working. These fees are determined by law and collective agreements, and in certain cases they are even introduced by companies



themselves. The most important are those for sick leave, annual leave, holidays, non-working days and paid leave (Buble, 1984, 255 to 265).

The share of profit, as a specific form of wage, is a result of the general business success and not always paid in cash. The size of the wage is influenced by a number of factors and is subject of debate between tariff partners (Hilf, 1963, 295). Key influences on the level of wages are the following factors:

- The value of the workforce
- The relationship between supply and demand
- The influence of unions
- The impact of state
- Performance
- Business success of the company

Connecting the salary with performance achieved over time directed the interest of workers solely on their own or group work, and what was happening with the overall business of the company was the worry of employers and managers. Since it was not the optimal solution, it was concluded that all employees should participate in the overall success of the company. Consequently different forms of participation in management, as well as the realized profit of companies, were developed. Various models of profit sharing, both for managers and for employees have been developed (Buble, Pavic, Goić, 1991, 1 to 3).

## **CHARACTERISTICS AND TYPES OF WAGE SYSTEMS**

It is important to emphasize that the wage systems are not uniform for all companies, there are various payment systems. Wage policy should be consistent with the situation in which the company does business and with plans for the future development because it represents the base payment strategy that is an integral part of the strategic plans of the company.

They differ in large, bureaucratically organized companies and smaller, more freely organized companies. Large companies use highly formalized assessment of tasks, graded pay structure, strictly controlled evaluation of performance and compliance with the prescribed administrative procedures in the regulation of wages due to the fact that they can provide security and reputation, and at the same the salary of their staff usually does not exceed the average in the branch.

On the other hand, smaller companies that grow faster and are more likely to change are more inclined towards non-formal methods and flexibility in determining wages and are ready for specialized staff that they are willing to pay well above the average to get.

Only a well-designed wage policy serves the purpose intended for it and forms a framework within which decisions are made on wages and is a point of stability in a changing economic, technological and market conditions. Its sharp formulation gives the wage system credibility among employees. The company must know what kind of behaviour and work contribution it wants to encourage with the wage system, taking into account features such as: performance, quality, presence at work, commitment, responsibility and the like.

H. Hilf classifies all wage systems into two groups: wage systems by time and by piece. The term of payment by time implies a wider range of payment than usual. In payments by time, in his opinion, time is the relevant factor for remuneration, i.e. wages remains the same regardless of the achieved performance (Hilf, 1963, 295).

The conclusion is that the payment per piece, in the primary division, does not take into account only a realized volume effect, but also all other forms that include the effect achieved. The second conclusion is that payment by time includes other elements of engagement such as quantity, quality, cost savings, and the like. Accordingly, the wage is determined by the time spent working, but wage may be adjusted depending on the achievement of other objectives.

K. Pullig outlined three basic forms of payment: time wage, wage by piece and premium wage. Time wage is determined on the basis of only time, and is proportional to working hours. In some cases, it includes a performance evaluation and is differentiated as time payment without evaluation of performance and time payment with the evaluation of performance (Galetić, 1991, 22).

Time payment with the evaluation of performance by REFI (Payment of Results, 1984, 9) is a system in which the wage is determined according to time and performance. This payment system is different from the premium system of payment for its basic features, but is also close to the systems of incentive payments as it connects effort and earnings of workers. ILO payment systems are classified into two basic groups: performance-related pay and the time payment. We differentiate clean time payment and payment on the basis of assessment.



In the so-called clean payment systems the amount of profit is calculated by measuring the time spent at work expressed in cash per hour. It is assumed that the effect is on the level of normally assumed total work load.

Payment on the basis of daily assessment is, in practice, located in a very wide range. Common to all is the establishment of norms of performance, and the calculations of earnings, according to B. Niebel, are implemented in one of two ways: they are paid according to time regardless of the achievement of performance or according to time increased depending on the level of achievement of the planned task. The first form of payment is different from the pure form of time in that it establishes standards of performance. Others form enters the order of systems of incentive payments.

It is important to assess the impact of external factors on wage levels, relations in the structure of wages between basic salary and stimulating part of salary, as well as all who participate in the formulation and execution of policy of wage management in the company (Greenhill, 1990, 5).

### **3. INFLUENCE OF SALARY AND REWARDING OF EMPLOYEES ON COMPETITIVE ADVANTAGES**

Competition in fact indicates the total number of actors (competitors) on a single market, i.e. the bidding entities that have the same or a similar goal (economic or otherwise). He who wins the "competition" becomes competitive. Competition is the key to success or failure of the company. Competitive strategy is the search for a favourable competitive position in a given economic group as the primary arena in which the competition occurs.

Each company and its competitive position in society depend primarily on the quality of available human resources. Using these resources and investment in their quality are the main factors of development. Education increases competitiveness by providing quality human-resources. It is education which enables the acquisition of knowledge, skills, attitudes and values that are needed to meet the individual work and social roles. Competitive strategy aims to establish a sustainable profitable position in relation to the forces that determine competition in the economic segment. Therefore, the ability to be competitive means "competition". The concept of competitiveness is extensive and covers a wide range of qualitative and quantitative factors. In any case, the factors of

competitiveness are very often specific to individual companies, industries and individual countries.

The condition for achieving the vitality of enterprises and the ability to respond to increasingly sophisticated consumer demands is competence to create and maintain competitive advantage based on value. One of the most difficult tasks for each company associated with product strategy is to answer two fundamental questions: how is the product to meet the wishes of consumers and how to improve its market position in relation to the competition, in relation to competitors' products.

The changes are faster and bigger, so the advantage over the competition cannot be achieved just as better positioning within the industry, particularly because the industry is changing rapidly – some disappear, and some completely new arise. That is why some new approaches to company strategies have emerged. The resource approach talks about the observations made on the key resources of enterprises, job retention, and creation of future key competencies by noticing existing ones. Since the best results are always given by the combination of more accepted models, so the competitive ability can be evaluated by a combination of structuralist and resource access approaches formalizing it with the model of “value chain” (Porter, 1985, 3).

In the past few decades, there have been three main hypotheses developed about the sources of **competitive advantages** of a company: the hypothesis of industrial organization, the hypothesis based on the resources and the one based on the capabilities of the company.

This paper starts from the premise that, the company should accept as the fourth fundamental hypothesis, the one that explains the source of competitive advantage, the one based on a wage system and rewarding and motivating of employees.

Sources of competitive advantage can be tested using two checks that determine whether the strategy of the wages and rewarding is the source of competitive advantage or not. The first check which should be answered is whether it increased the value of the company. In this sense, the system of wages and rewards increases the value if it helps attract and retain talented employees in deficit, control costs, motivate employees to further learning and improve performance, etc.

The second test relates to the question of whether the strategy of wages and rewarding is hard to emulate. Thus, competitive advantage arises from the way in which the business strategy and system of wages and rewarding are harmonized, the synchronization between the system of wages and rewarding and other activities of human resources, as well as how the system is implemented.

The basic message is that the company can win in a competitive competition only if it possesses more relevant knowledge than their competitors. Therefore, competitive advantage finds its source in knowledge, and knowledge management can be an effective source of its creation and development. Employees now form the basis of competitive advantage of organizations, or are the main resource of survival and a driver of growth and development of modern organizations. Many contemporary authors in the field of business in their theoretical and empirical research advocate and emphasize the employees as a base competitive benefit of organizations and explain their crucial role in organizational success. Employees are the potential of competitive advantages of companies only when they are optimally managed, i.e. when the company's human resource management is good. Similarly, the value of human resources of an organization can grow, stay the same or decrease depending on how it is managed. One of the biggest influences on the growth trend of the value of human resources of a company is the implementation of an appropriate system of wages and rewards.

#### 4. CONCLUSION

Today the companies, in terms of global competitiveness, are forced to grow and develop primarily on the basis of the continuous guidance of its intangible assets, i.e. employees, to new trends and challenges. This is why the process of work performance, in the coming years, will result in success in the work of all employees, and also the company as a whole, in the function of competitive advantage.

In the highly competitive environment the company needs to focus on the achievement of a specific, sustainable competitive advantage, because it is the key to long-term profitability. A well-defined and transparent performance management system allows for an increase in business performance through rewarding of the employee's extra effort in achieving set objectives.

Strategic human resource management is the linking of HR with corporate strategies for achieving these strategies. The strategy of wage and rewards should be integrated with the business strategy and formulated in a way which enables the achievement of long-term goals of the business policy and human resources policy.

It is very important that the salary consists of a fixed and variable portion. Since it is considered as an incentive, a payment system increases with increasing the share of variable pay in total wages. Such a model of pay will contribute to greater employee motivation and raising the competitiveness of enterprises. Furthermore, remuneration includes not only direct payments in cash, but also indirect payment in the form of employee benefits and incentives such as life insurance, use of company cars, the possibility of acquiring new knowledge and training, etc. It motivates employees to achieve higher levels of productivity. Accordingly, it is also a critical component that occurs in the relationship between employers and employees.

World economic trends are going in the direction of re-industrialization based on high technology and the integration of the world economy. Production growth so far was primarily based on the exploitation of natural resources. Raw materials are a limited resource, and human needs are unlimited (Sundać, 1992, 36).

Factors of development are moving from material to immaterial, specifically the knowledge. Human resources management as a business function combines the activities and tasks related to the people, their recruitment, selection, training and other activities aimed at the development of employees. People, their needs, motivation and satisfaction are becoming the centre of attention of human resource management because it was realized that human capital is the main tool of competitive capabilities and advantages in the global market. Today, intellectual capital is becoming the most important factor of production that drives all the other factors of production (Sundać, Fatur, 2004, 85 to 96).

Intellectual capital marks a new knowledge-based economy. The synergy of all the components of intellectual capital (human, structural and consumer) is the base for creation of added value in the company and for building a competitive advantage in the market. The needs of individuals and the factors that are held to motivate them are the object of intense research and analysis from which many motivational theories have risen. The complexity of the individual excludes the acceptance of one of motivation theories as a unique way to mo-

tivate people in all types and forms of organization as a universal, regardless of the environment in which it is located. Man is a complex psychological system that requires many instruments to raise motivation. It is necessary to know, along with motivational theories, the complexity of employees as individuals and the circumstances surrounding them. Management must design a system of payment and prize packages whose structure depends on how complex or simple the system we want to develop is, and whether we prefer the base system based on collective or individual factors.

Reward strategy is based on continual judgment on what the company intends to do, as well as the role that other parts of the strategy of human resources management have in achieving these organizational goals. The limiting factors are its existing human resources, management practices and financial resources. Policy and strategy of wages and rewarding are a continuous process that must be focused on achieving the best possible results of the organization.

Effective management of the system of wages and rewarding is important to achieve the competitiveness of a company. We can develop and implement the most modern system of wages and rewarding, and it will not contribute to achieving the company's competitiveness if we do not have adequate management. As long as it is not possible to design a proper management system, the system of wages and rewarding will not achieve your goals. The highest wages and remuneration systems known so far in the world are useless and ineffective without competent management.

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