

Human capital and competitive advantage in business organization in the region of Kosovo

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Abstract

Successful adjustment to all that is taking place and to the changes of the environment in which people, enterprises and economies live and act is reflected in the evaluation of the human factor as a significant economic resource. The learning society that the current society is striving for, enterprises and economies base the competitive advantage on the knowledge which is found in people in using potential chances and knowledge is necessary in order to realize it. That is why development aims of the most developed countries in the world are established, in fact, investment in human capital is increased and various innovation activities through constant learning and education of the people employed in organizations. After research we come to the conclusion that the human resources are not the most significant in the business of organizations in the region of Kosovo, that a lot more attention is given to the material resources, reasons are given about that kind of condition as well as consequences that directly affect the quality of accomplishing the aim and competitiveness that Kosovo accomplishes in relation to all the countries in the region.

Keywords: present organizations, intellectual capital, knowledge, human capital, learning, competitive advantage, innovations.

Introduction

The impact of human capital to create and maintain competitive advantage in Kosovo was examined in this study which, otherwise, is the poorest area in the region. Gross domestic income (GDP) per capita in the country is estimated at \$ 3,520, which would be the 93rd place in the world, behind Macedonia, Albania, Serbia and Bosnia and Herzegovina.¹

Kosovo has an average unemployment rate of 45%. Youth unemployment reaches 70%, which is virtually a recipe for unrests, especially given the fact that half the population is under 25 years of age and about 21% between 15 and 25 years of age. The World Bank estimates that 34% of the Kosovo population lives below the national poverty line (€ 45 or \$ 60 per month). It is not exaggerated to say that the stability and development prospect of Kosovo, which is facing the reality of unemployment and poverty, largely depends on the creation of jobs.²

Currently, more than 98% are family-owned businesses, micro, small and medium size enterprises (SME). In a recent UNDP report it was concluded that the market in Kosovo was unbalanced. High emphasis is placed on opening of the companies in an environment that is already saturated with tertiary companies or low added value firms in the service sector. In order that this very narrow pattern of growth turns

¹ World Bank;

² Development Indicators in the World in 2015:

into something more dynamic and something that better covers the private sector, in the report, among other things, a transition from micro and small enterprises to medium-sized companies is recommended, as well as better access to finances for new businesses and companies that are expanding, particularly those managed by women and young people.³

Organizations in modern business conditions

The main problem modern organizations are facing is how in the unstable, constantly changing conditions, to become a stable organization capable of making changes, and to reduce that very unstable business environment. That is how to adequately respond to the challenges of the contemporary needs of customers, consumers, markets, profits, progression, and competitiveness. It is a delicate business management because it is necessary to make people aware of common opportunities by offering them achievable goals, clear system of values, an appropriate organizational hierarchy, as well as the opportunity for personal and team development and progress. Therefore, the main task set before the management in contemporary organizations is to develop a sufficiently resilient business that will withstand constant changes and disturbances that occur outside the organization as well as within it.

The business environment in which today's modern organizations operate has changed dramatically due to the operation of large, often closely related social factors that created new rules of behavior, opportunities and challenges. These are: **the electronic revolution** - which led to the expansion of information technology in production, electronic communication, online distribution and more proper comparison and price formation; **Globalization** in the field of Transport and Communications, which was created as a result of technological progress, which facilitated and integrated operations in other countries, and for the consumers purchasing products and services at the international level; **giving freedom** to economic branches in order to increase development and competitive opportunities and; **privatization** of traditional public companies in order to increase their efficiency; **liberalization** of the market in order to increase competition; **overlapping** two or more branches of the economy in order to consider new opportunities; **changing** the ways and the business relation in retail sale between small and large retailers, the introduction of catalog sales, sales by ordering products and services, etc.; **direct sales** through online business or adding online services to the already existing regular sale (Kotler, 2009, 55-56).

Exploring the environment, companies recognize their inner strengths and weaknesses and the opportunities and threats that come from outside. Using relevant information, trying to engage their strengths, to eliminate weaknesses and exploit opportunities, avoid external threats and dangers. The obligation to adapt to global trends and conditions and changing environment was imposed, it is no longer just about the persistence in the market but about the absolute survival. That is why, the organizational form is changing new structural solutions are found, more flexible to the possible changes.

³ UNDP, Report on Human Development in Kosovo 2015;

"Once learning was a luxury for the elite, now it's a national necessity, a necessity of the broad masses, in the true sense of the word. He who does not understand these processes, he does not understand the tendency of the time, he remains behind. When, contrary to this, he understands these processes, for him, the future has already begun (Bilandzija, 2010, 238-244)". Knowledge is no longer a *privilege* and obligation of the management but of all the employees in the organization. Creating and maintaining a competitive advantage is a major and demanding task of modern companies. Earlier, the competitive advantage was guaranteed by the location itself. Availability of raw materials enabled the creation of initial monopole. At one point, it was access to oil, mines, forests and the like. Soon other available markets annulled the location as the starting point of competitive advantage. Development of technologies and unimpeded access to capital enabled the new opportunity of achieving competitive advantage.

The new organization is an organization that constantly learns, recognizes the concept of intelligent leadership, of the transformational leader, it builds team players at all levels, encourages creation of self-managing teams. Regardless of the type of products or services, new roles of the leaders of highly productive teams are focused on the team conducting meetings, managing and training teams, motivating and directing the energy of employees, meet the needs and desires of the market. A large number of existing companies will need a lot of time to comply with the today's requirements. Psychological transition and a new corporate culture should lead to flexible organizations, teamwork and responsive organization.

Knowledge, intellectual capital and human capital

Knowledge is a complex concept, "because it is a combination of wisdom, experience, education, ideas, approaches, values, contextual information, data, expert assessment and so on, that creates a general framework for the assessment and implementation of new experiences and information." *Knowledge workers* represent "the most important single capital of the company." This means that traditional resources are increasingly in the function of knowledge. Knowledge Management combines business processes, support of IT, and creativity of individuals. Today many companies are investing in the skills of workers and capacity building. Since 1993 companies in US allocated 48 billion dollars for the education of workers. This is more than double from a year ago. Already since 1999 annually they allocated about 60 billion dollars. This trend is growing rapidly, so that successful organizations regularly allocate between 3 and 5% of the previous income by the various educations and capacity building of their employees. That knowledge has a major impact on modern economic activity is illustrated by the fact that more than 50% of GDP in developed economies is based on knowledge, respectively intellectual property.

The capital that the organizations have, in addition to visible and measurable values they also include intangible values. Thus, the market value of the organization is composed not only of financial capital. It also includes the intellectual capital (minimum with the same proportion as the financial capital). Experts say that in the most successful organizations intellectual capital even has a significantly greater

value than the financial one. Although intangible, the intellectual capital in modern time generates 80% of the economic value, it consists a competitive advantage in the market and increases the book value of the company. Thus, in 2002 the total cost of a computer, hardware accounted for 80% and software with 20%, while today it is the other way around. Also, material expenses of an average car account for only 16% of the total cost of its production (Jonas & Kjel, 2003, 88).

Human capital represents the main pillar of intellectual capital, i.e. everything that people know, whether they are managers or direct executors, and to use their skills to create a unique product or service that delivers a new value. Although human capital is the main driver of an organization and the team the market positioning - human capital is still individual and not the property of the company, and represents a constant tendency of organizations to collect and store that knowledge in the basis of the organization.

Innovation and competitiveness

Innovations have become a key factor for the acquisition and improvement of competitive advantage. Due to this modern companies encourage more efficient use of knowledge. Knowledge leads to the creation and application of innovations, and the time from creation to the practical application of the innovation, more and more reduced.

An example of companies that are based on innovation, the company *Gillette* is a leader in the application of technology, and the key feature of innovation is production. It is a technology that is needed to produce billions of cheap and high-quality razors. The essence of the *Gillette* product has to be perfect but to cost cheap. To create, for example, *sensor and mach3* models and, *Gillette* has invested over \$ 1.5 billion in research and development, of which the largest part of the money was dedicated to innovations in production. The *Nokia* Company has 52,000 employees, of which one-third working in research and development. Of total revenues, the company spends 10% on research and development - which amounts to three billion dollars a year. *Nokia* has a central research laboratory when it comes to core technology and product design. However, all employees in research and development do not work in the central unit for innovations. The company has 69 teams for research and development that are located all over the world, and their task is to create new ideas for new market needs. *Nokia* has got away from the shortcomings of large companies, creating more small businesses within large companies. Each small unit must create its own business model and to conduct research and marketing. Thanks to this organization employees have the feeling that they are working in a small company. In the best way *Nokia* has optimally utilized the advantages of large companies and the superiority of small businesses when it comes to innovation. The company's ability to motivate employees to make innovations gave results, and today *Nokia* is the sixth brand in the world, and besides this it just 10 years after entering the market beat its biggest rival, *Motorola*, in sales and operating profits by 2: 1;

Nokia has at one time been the market leader in this field with sales of over 31 billion dollars a year and 38% global market share, which does not mean that this is the current

situation, because the market is a constant struggle. Also, employees of Toyota give annually two million ideas, about 35 ideas average per employee. Today innovations account for two thirds of employment. Regardless of the policy framework of the country the companies are the ones that make and improve competitive advantage. In an undeveloped country firms that snatch their development using advanced knowledge and innovations can be found.

To undeveloped countries knowledge and technologies that have been developed in advanced countries may serve as a model. Almost every business strategy aimed at sustainable competitiveness. Many companies are afraid of potential risks and uncertainties, and despite the fact that they know that innovations bring many advantages, they keep to their belief that they will be fine without innovations. However, *doing nothing* is the worst possible choice, especially in activities that are changing rapidly (e.g. mobile phones). So, if companies decide not to innovate their products and services, the chances of surviving are minimal.

The result of empirical research in the organizations of Kosovo

The study included the importance of people, their education, skills, their motivation and desire to succeed, their creativities, innovation and teamwork skills in generating higher productivity and advantages of an organization in relation to the other, as well as the way the human capital affects the creation of competitiveness and maintenance of once established advantages in the future. The survey was conducted on a sample of 76 respondents employed in different companies of the entire territory of Kosovo. The survey covered companies that have more than 30 employees. In most of the organizations that participated in the survey, the most represented sections are services, trade, manufacturing, public utilities (electricity, water, waste collection) mega markets, restaurants. The basic idea of the research is to determine the facts of the case in terms of human capital, how much attention is given to it as a resource and how much as a resource it can contribute to creating and maintaining a competitive advantage of organizations, as well as how much the delay is there in global trends. However, based on the survey results, we can conclude that for most of the surveyed organizations intellectual capital is not the most important resource of business or it is significant to a small extent, because of all the organizations surveyed only 34.21% are considered an important resource. The results obtained by this survey provide a range of new information about the impact of human capital to create sustainable competitive advantage in the business of organizations in Kosovo, where the survey was performed. We used many of the techniques of statistical of data processing, depending on the type of data, type of scale and dimensions of the questionnaire, with a full degree of objectivity. The most important results of the research can be divided into several groups:

1. Differences among respondents

- there are no statistically significant gender differences in scores on the questionnaire of the survey in question;
- there are no statistically significant differences between age groups in scores on

- the questionnaire of the survey in question;
- it was determined that there are differences between respondents in different positions in the organization on the scale of human capital: respondents from the top management group had a higher score on the scale of human capital than the respondents of the management group of the first level;
 - there were no statistically significant differences between respondents of different levels of education in scores on all scales of the survey of the questionnaire in question;
 - there were no statistically significant differences among respondents from different categories of years of service in scores on all scales of the survey of the questionnaire in question;
 - it was established that there are differences between respondents from organizations of various activities on a scale of continuous education and training: respondents of the group of trade as well as respondents of the group of public companies had a higher score than the respondents of the group of production on a scale of continuous education and training, while the scale innovation, respondents of the trade group had a higher score than the group of production;
 - there were no statistically significant differences between groups with respect to the form of ownership of the organization in scores of all scales of the questionnaire survey;
 - there were no significant statistical differences between the groups with respect to the number of employees in an organization in scores on all scales of the questionnaire of the survey in question;
 - there were no significant statistical differences between the groups in relation to the number of highly-educated people in scores on all scales of the questionnaire of the survey in question;
 - significant differences were established between respondents belonging to different groups in relation to the number of years of business of the organization in the market: respondents of the organizations operating over 10 years had a significantly higher score on the scale of continuous education and training.

2. Correlation to categorical variables

- a statistically significant correlation was established between the variables proprietary form of analyzed organizations with variable significance of the intellectual capital to the organization in the aspect of the medium strong influence;
- respondents of the private organizations attach more importance to intellectual capital than to the others;
- a statistically significant correlation was established between the variables of the number of employees in the organization with the variable significance of the intellectual capital to the organization in the aspect of the medium strong influence;
- it was established that respondents of the organizations with more than 30 employees give more importance to intellectual capital than the others;
- a statistically significant correlation was established between variables the gender of respondents with the variable significance of the intellectual capital of the organization in the aspect of the medium strong influence;

- it was established that female respondents give more importance to intellectual capital than the male respondents;
- among other variables, no significant correlation was established.

3. Correlation between the scale of respondents

- a small positive correlation was established between the scale of human capital and of ongoing education and training;
- a small negative correlation was established between the scale of human capital and of innovation;

4. Correlation between categorical variables

- it was established that there is a significant correlation between the variables the importance of intellectual capital of the organization and people are the key resource of contemporary business, and it is a question of a medium strong influence;
- it was established that there was a correlation between the variables learning from the experience of others within the organization and sharing of knowledge among employees in the organization close to the threshold of significance; it is a question of medium strong influence but does not have the required level of significance.
- it was confirmed that there was no significant correlation between variables: the significance of the intellectual capital of the organization and what is competitive advantage based on;
- among other variables a statistically significant correlation also was not established.

So there is no sufficiently developed awareness of the significance of human capital in companies in Kosovo and its impact on creating and sustaining competitive advantage an organization can be confirmed in two ways: firstly, by looking at the frequency of answers to respective questions of the questionnaire, as well as what there the statistically significant correlation was not established, i.e. the impact of human capital on creating and maintaining competitive advantage of organizations. According to the results we conclude that in the organizations in Kosovo human capital is not considered as the essential capital of organizations, nor the competitive advantage is based on it, but that there is sufficiently developed awareness of the significance of human capital and its impact on the creation and maintenance of competitive advantages.

Still in organizations of Kosovo prevails the opinion that other factors such as price, product quality, technology ... are more significant factors of success and competitiveness than the human factor and that they attach far greater attention. The result of this situation is the insufficient effectiveness of these organizations, in comparison with other organizations in the region. From the above survey results, it is concluded that entrepreneurial leadership potential and innovations do not lead to the creation and maintenance of competitive advantages.

Organizations that have been surveyed pay attention to creating new knowledge for their employees in the following way: 26% of respondents strongly agree with the statement that his organization pays attention to creating new knowledge and 28% of them partially agree, 14% do not support this statement and 24% partially do not agree. A higher percentage of the organizations agree with the fact that the attention given to the organization by creating new knowledge is satisfactory as also a large percentage of the respondents agree with the statement that their organization

supports the professional development of its employees.

Concerning the motivation of employees to continuous improvement, those who are completely and partially interested are amongst 48% of the respondents, and those who completely or partially disagree are 40%. The percentage that represents the difference is relatively small, reflecting low motivation of employees. So, the idea of education and training of employees as a basis of the development of human capital and the basis for creating sustainable competitive advantages is only partially accepted.

Judging by the results of the survey, education is important to the extent that would constitute the basis of human capital development, nor is crucial in creating a competition, because there is still a conception that the technology at the disposal of the organizations (which differs very much from organization to organization of the same branch, a small number of them have modern machines, most of them purchased from major companies in the region that have gone bankrupt) is very important along with the price of the product with which it goes on the market.

The reason for this situation probably lies in the fact that there is a very large number of people with university degrees in Kosovo, however, the quality of knowledge of graduates is very low and is not in line with the needs of the workforce. This, with the slow development of the economic sector, leads to the lack of acceptance of students in the labor market, and therefore to the loss of confidence in the performance and quality of the work of people and the opportunity that in relation to their knowledge competition is created. Such employees are poorly motivated for further training because it is very difficult for them to follow the now everyday changes in the work of contemporary organizations⁴. Continuous education and training of employees as a basis for the development of human capital and a basis for a sustainable competitive advantage is only partially confirmed.

The claim that the organization pays attention to developing new knowledge, skills and abilities of employees, about what 14% of respondents did not agree at all and 26% fully agreed, however, with the statement that the organization supports the professional development of employees 21% of respondents did not agree at all and only 17% agreed. The statement that employees are motivated to constantly improve, 22% of respondents fully agreed while 16% of respondents did not agree at all. The 28% of respondents did not agree at all with the statement that in the context of the organization there is available knowledge and information without limiting factors in the form of rigid rules and procedures for all employees; 26% of respondents consider that employees within their organizations are not willing to develop a competitive spirit, while only 13% fully agree with the statement. As far as the information related to the job and their flow among employees that they share generously in order to produce greater productivity and success, 38% of respondents answered that this never happens and 18% that it always happens.

These results only confirm the conclusion that sufficient attention is not paid to the people and their knowledge and training, nor that the knowledge of the people – is a factor leading to success. The society of knowledge that we are currently in requires of all businesses and in general of the national economy to base the knowledge and

⁴ USAID Strategy of Cooperation for the development of the country;2014-2018

use of potential opportunities on competitive advantage. According to the survey results, this is not the situation in Kosovo!

This situation directly reflects the level of development of economic growth in Kosovo, which happens every year, and which is very low and unsatisfactory (the increase of economic growth from 2012 to 2013 was only 18% percent).

Prospects and recommendations

Based on the research results and conclusions that people and their skills are not sufficiently respected within the surveyed organizations in Kosovo, we believe that the contribution of this work in the near or distant future, could be, on the one hand, in the understanding of the facts of the most significant resources of modern business and its favoritism in relation to other resources, and second, changing of this situation and putting the man in the limelight of development and the creating a competitive advantage.

We consider that in the future could take some of the following activities and recommendations could be undertaken in order to facilitate the evaluation of human capital in organizations of Kosovo.

- How the survey was conducted limited by the number and type of participating organizations, undertaking of a broader and more comprehensive survey on a larger sample - would certainly have its advantages.

- Conditions for the business of any organization owning some kind of capital, and we suggest to the organizations in Kosovo to pay more attention to intellectual capital, actually, to concentrate their attention to everything that members of the organization know, as only that the quantity of that knowledge, properly directed, encourages the creation of enterprise competitiveness.

- We recommend that organizations in Kosovo begin to give greater priority to human beings as an invisible resource in relation to technology or at least to begin to establish, initially, the equilibrium between them.

- Knowledge of the employees is the critical success factor and one of the resources that are most difficult to be imitated by competitors, so we suggest that a special emphasis is given to it within organizations in Kosovo. We suggest that organizations reflect on successful organizations that are learning, which are interested in education and invest sufficient means in training employees. This increases the working motivation for employees and the contribution to the organization, and moves away from the limited utilitarian personal goals that are frequently reduced only to financial security. In order to achieve and improve competitive advantages and development in general, business entities in Kosovo should support the effective use of knowledge, i.e. to insist on the use of innovations. Of course, this requires reducing the time required for the implementation of this knowledge, and this means that management should know how to manage the whole process and to keep an eye on each segment. It is necessary to look up to successful innovative entities which are already in effect showed that new knowledge produces achievement.

One of the important changes that the companies in Kosovo must adapt to survive and develop is changing consumer behavior, changing needs and desires, differences

in standards, different tastes and ways of dealing with them. Quality, flexibility, education, rapid response to changes, continuous research and development, information and knowledge, should be the first factors that determine the long-term viability of the organization. The teams and the people in them, as well as leaders that lead them, should be the main competitive advantage of their knowledge, the ability to adapt and create something new, innovative and creative - should be the focus of the future business of the Kosovar organizations.

Summary

Developed economies are extremely turbulent economies. The same applies to their markets; the turbulence has to do with the speed of the changes that occur in such economies, as well as on their markets. Every time, the changes are more rapid and develop within a short period of time, compared to the increase of the intensity changes. The turbulence is conditioned even with the reduction of the needed time that is used to transform the used ideas into new products and profits. The businessman is faced with extraordinary requests, which are interconnected with the need to think fast, to make quality business decisions, in the circumstances in which the previous experiences are worth less and less, and in which circumstances there is a need to always think fast. Such environments require more flexible enterprises. The flexibility is in the function of the vitality, whereas vitality is in the function of the greater time duration of the enterprise; flexibility is in close connection with the knowledge, which exists in people, who work in organizations; the knowledge should always be cultivated and must always grow, so that it can survive in the market, and to be able to create conditions for competitions.

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