

HRISTINA SERAFIMOVSKA*
VASIL POPOVSKI **

**THE MANAGEMENT OF HUMAN RESOURCES AS A KEY
IMPERATIVE FOR INCREASING THE INNOVATION OF
ENTERPRISES IN THE REPUBLIC OF MACEDONIA**

Abstract

This paper is with a primary objective to explore the connection of human resource management with innovation in enterprises in the Republic of Macedonia. Considering the significance of human resources as a key and indispensable organizational resource, and the effect they have on the performances of enterprises in the form of efficiency and effectiveness depending on the way they are managed, the question arises as how much these resources are strategically used in the Republic of Macedonia. The research additionally treats innovation of Macedonian companies in function of emphasizing the possibility, as well as determining the situation in Macedonian enterprises in term of the question how much Macedonian managers apply it, but are also aware of the benefits of using and developing strategic human resource management in order to achieve the specific objectives of the enterprise. The survey covers innovative companies in order to determine how much of this innovation is controlled and deliberately caused by strategic human resource management. The results of this research should serve to create recommendations on what kind of interventions are needed to improve the performance of enterprises in the Republic of Macedonia when it comes to human resource management.

Key words: innovation, intrapreneurship,
strategic human resource management, human resources.

JEL Classification: O, O15, O3, O31, O310

* Hristina Serafimovska Ph.D., University Goce Delchev – Stip, Republic of Macedonia
E-mail: hristina.serafimovska@ugd.edu.mk

** Vasil Popovski Ph.D., Institute of Economics, University Ss. Cyril and Methodius – Skopje,
Republic of Macedonia E-mail: vasil@ek-inst.ukim.edu.mk

Introduction:

When we talk about resources in science there is a generally accepted claim that man is a key resource for many reasons. He appears as a carrier of the total processes of creating economic values, he is difficult to imitate, he sets goals and with his help and recruiting of other necessary types of resources they are achieved. For this reason human resources management must be organized, designed and directed towards the realization of the pre-set i.e. strategic goals of enterprises.

Regarding the issue of the competitive advantage of the enterprises, how it is acquired, what are its sources and so on, among the various claims is the claim that human resources are the ones that lead to a competitive advantage of enterprises. The essence of this claim lies in the specific practices of human resource management that are used, which besides being able to contribute to building the competitive advantage of enterprises, they also lead towards its sustainability in the longer term. By selecting human resource practices, system, which is formed, is complex, composed of closely related interdependent elements and, in that way, he is difficult to imitate. In other words, its uniqueness stems from a combination of applied practices (at the expense of single practices) and the impact of human resources (as a unique component) to which these practices apply.¹

1. HR PRECONDITIONS FOR BETTER PERFORMANCE OF THE ENTERPRISES

The performance of enterprises is a consequence of the overall functioning of the enterprise, which is a complex system of elements, more or less predictable. The resources of any type are a necessary prerequisite for fulfilling any objective expressed through the performance of operations. In this particular case, we will focus on human resources as a key and susceptible of controlling and modelling in the desired direction.

The link between human resource management and enterprise performance has been the subject of research of many scientists and such cause-and-effect relationship is unquestionable.² Regarding this connection,

¹ **Machado, C., Melo, P.**, (2014), *Effective Human Resources Management in small and Medium Enterprises: Global Perspectives*, Business Science Reference, Hershey, p 226.

² **Armstrong, M.**, (2012) 12th Edition, *Armstrong's Handbook of Human Resource Management practice*, Kogan page Limited, p. 51

the question of how it comes to converting the applied human resource management into concrete results is also opened and in this context is the well-known phenomenon of a Black box. Perhaps science does not have precise data on exactly how it comes to converting the mentioned elements, but what it can be clearly detected are the applied practices such as “input” and the organizational performance such as “output”, or detected product initiated by their application.³

The sequence is as follows: the set human resource management policies shape the practices that will be applied, and the applied practices influence the formation of employees’ attitudes and have a role in their behaviour, which is further reflected on the performance of the organization. Practices, in essence, represent the link that connects, that is, the medium through which human resource management is reflected and it creates the performance of the enterprise.⁴

However, what is highlighted as an important detail is the attention that should be paid on the implementation of the established practices. It is not enough for them just to be selected and set, their successful implementation is required.

Also, achieving successful performances opens up another issue when the HRM practices are in the focus. That is the question of alignment, that is, integration. A system consisting of human resource practices selected for use needs to be complied both with the wider organizational context, and within the framework of applied practices there should be consistency and compatibility. The consistency and compatibility of the selected practices is known as horizontal fit, and it ensures the organization’s efficiency, while the compliance and support provided by human resource strategies of the business strategy, i.e. vertical fit leads to organizational effectiveness.⁵

So what makes the performances of enterprises different and better than each other is the choice and application of different strategies that draw and applying appropriate human resource practices that would allow them to be successful, and that, on the other hand, differ from organization to organization.

³ **Ibid**, p.52

⁴ **Ibid**, p.50.

⁵ **Burton, R.M., Eriksen, B., Hakonsson, D.D., Snow, Ch. C.**, (2006), *Organization Design: The Evolving State of the Art*, Springer Science + Business Media, LLC, p. 87.

2. FROM HUMAN RESOURCE MANAGEMENT TO INNOVATION IN MACEDONIAN COMPANIES

Numerous studies have so far confirmed the positive impact of human resource management on the performance of enterprises. The manner of selection of practices in addition to guaranteeing successful performance, it can simultaneously deliver concrete results in relation to the specific set objectives. In this case, we will keep innovation as the ultimate goal of enterprises.

As we have already mentioned, vertical integration reflects the connection between the business strategy of the organization, in this case- and innovation strategy, and the human resource management policies and practices that apply to it. Such integration is needed and useful because of the effectiveness and efficiency deriving from it, and is due to the connection of the business objectives with those set at the individual level. This relation is reinforced by the proper behaviour in the organization that is directed and aligned with the set business objectives and as such appears as their primary supporter. ⁶

In addition to the claim that there is a positive relationship between innovation and human resource management, there are numerous research results. In this case, we will set out as an example the results of the research conducted in Denmark on 684 Danish manufacturing companies and 1216 private companies in the service sector. As a result of the selected management practices, these researches mark results on the creation of innovation in the part of the product, but also in the processes. Also, a research conducted in Belgium on 22 production companies reveals specific human resource management practices that as a consequence of their application have innovations in the area of products and manufacturing technology. It is about investing in trainings, teamwork, evaluation process, etc. ⁷

Schuler and Jackson⁸ emphasise the behavioural approach towards the strategic human resource management according to which the connection of the organizational strategy with the appropriate way of employee behaviour

⁶ **Bearswell, J., Claydon, T.**, (2007) 5th Edition, *Human Resource Management: A Contemporary Approach*, Pearson Education Limited, Harlow, p. 44.

⁷ **Warner, M.**, (2013), *Whither Chinese HRM?: Paradigms, Models and Theories*, Taylor & Francis, p. 85.

⁸ **Truss, C., Mankin, D., Kelliher, C.**, (2012), *Strategic Human Resource Management*, Oxford University Press, New York, p. 96

is essential. Human resource practices in this case should be related to the organization's strategic focus - the business strategy, and in that way to encourage employee behaviour that will be in line with the organization's overall strategic orientation. In this context is the innovation strategy that requires creative behaviour, risk taking, tolerance of uncertainty, mutual cooperation, etc. Such behaviour may be prompted with appropriate human resource techniques such as: tolerance of failure, selection of staff with strong skills, guaranteed discretion, and so on.⁹ However, what is the situation on this issue in the Republic of Macedonia?

3. ENTERPRISES IN THE REPUBLIC OF MACEDONIA, THEIR INNOVATION AND THE SITUATION WITH THE HUMAN RESOURCES MANAGEMENT *(results of the conducted research)*

Exactly with this intent, to determine how much practice in the Republic of Macedonia points to the fact that the used human resource management practices correspond to the established business strategy of innovation and cause an appropriate type of behaviour among the employees in order to achieve the set objective, this research is conducted in 31 companies in the Republic of Macedonia.

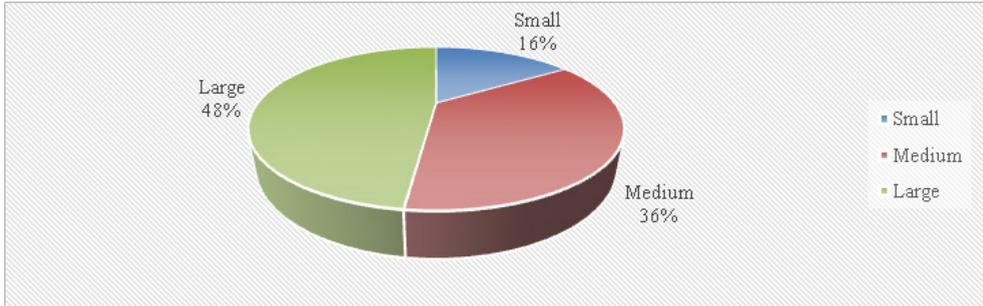
Regarding the structure of the selected sample on which the research is conducted, we will focus on several characteristics: the size of the enterprise, the structure of the capital and the innovation.

Graph No.1 shows that the small enterprises (up to 50 employees) have the smallest share in the analysed sample, while the largest enterprises with over 250 employees have the largest share. No microenterprises are included in the survey.

Such nature of the sample appears to be appropriate for researching the intrapreneurship characteristic for larger enterprises, where it is clearer to note the way in which human resources are managed and the techniques used to foster the creative spirit of employees and to provide greater innovation of the enterprise.

⁹ *Ibid*, p. 96

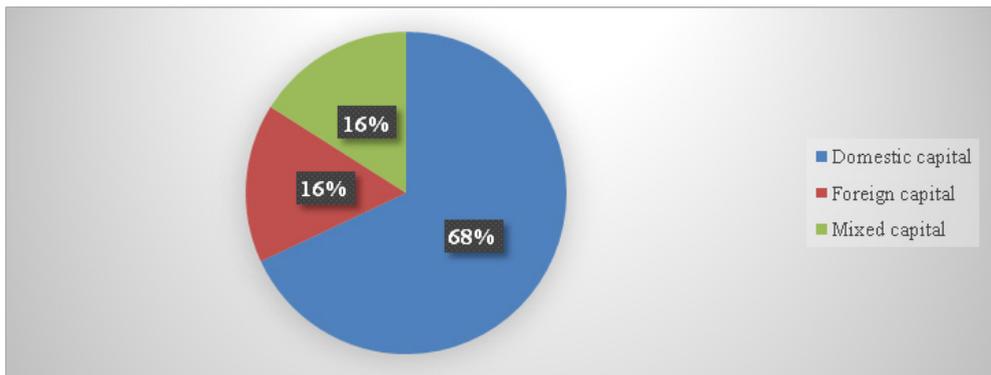
Chart 1: Size of surveyed enterprises



Source: Own survey

As for ownership, Chart No. 2 gives us insights into the ownership structure of the surveyed companies. From what is shown, it can be concluded that companies with domestic capital have a dominant share. Because of the large percentage of surveyed enterprises with exclusively domestic capital, the conclusions that will be adopted will reflect on the situation typical for Macedonian enterprises.

Chart 2: Ownership of the capital of the surveyed enterprises

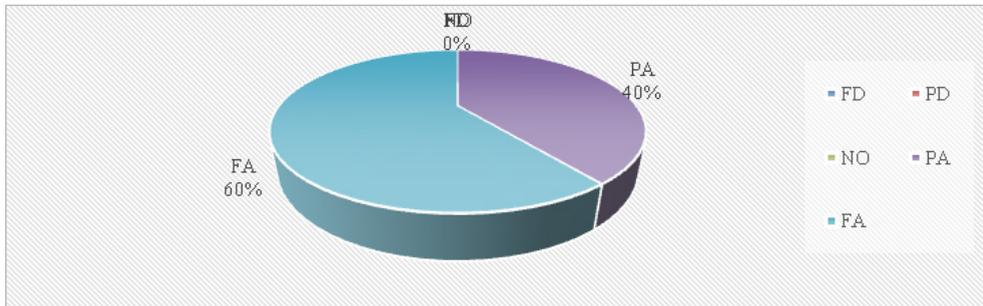


Source: Own survey

Judging by their own perception regarding the innovation in operations, Chart No.3 shows that these are enterprises for which the innovation feature is common, which differ only in the degree of innovation, so some of the enterprises were considered partially and others as highly innovative.

As such, the surveyed enterprises represent a solid basis for examining the set thesis, which refers to the connection of the innovation with the applied practices of human research management in the companies in the Republic in Macedonia.

Chart 3: Perception of surveyed enterprises for their own innovation



Source: Own survey ¹⁰

For the needs of the research, a list of human resource management practices was prepared, as a specific set offered and explored in this paper. The list is created on the basis of already scientifically validated practices in this field, that is, practices that encourage innovative behaviour¹¹, and it is extended and enriched with practices that guarantee results in different situations (according to the best practices approach, i.e. universal perspective)¹².

It is about choosing the following human resource management practices:

1. Recruiting and selecting innovative individuals;
2. Workplace design that stimulates interaction and coordination between individuals as well as between groups within the organization;
3. Encouraging a different thinking of employees, working together on problems and tasks, respecting different ideas;
4. Tolerance of failure and encouragement of employees to continue their efforts;
5. Developed performance assessment system that stimulates innovation;
6. A system of compensation that emphasizes internal capital and includes multiple selection components (salaries, bonuses, shares, etc.) and continuously rewards the achieved success;

¹⁰ **Meaning:** FD – fully disagree, PD – partially disagree, NO – have no opinion, PA – partially agree and FA – fully agree

¹¹ **Mumford, M.D., Hunter, S.T, Bedell – Avers, E.K., (2008), *Multi-level Issues in Creativity and Innovation*, Elsevier Ltd., p. 335.**

¹² **Paauwe, J. (2004), *HRM and Performance: Achieving Long-term Viability*, Oxford University Press Inc., New York, p. 27.**

7. Enhancing the knowledge and skills of the employees through continuous investments in trainings, seminars and other forms of their upgrading;
8. Providing the conditions and necessary preconditions in which employees could make production discoveries;
9. Extensive career development opportunities with the opportunity to acquire a wide range of skills.

As far as innovation is concerned, it is addressed by six questions/ attitudes that represent the perceptions of respondents for their enterprises on many grounds. Innovation as a dependent variable was measured according to the perception of respondents in relation to several assumed measured that provide a broad assessment of the set issues from several aspects. For example, profitability is in function of a real indicator for the success of the company, the picture of the economic results that is achieved on the basis of the realized innovation. While other questions give us information about the competitive position of the innovation driven enterprise in relation to existing competitors, potential competitors, possible substitutes, customer satisfaction etc, according to the five forces of competence proposed by Michael Porter in his model.

By bringing into correlation to the set variables, a confirmation or rejection of the hypothetical framework will be made and a conclusion will be drawn on the impact and situations on this issue in the enterprises in the Republic of Macedonia.

The research techniques used in this research are the technique of polling and the technique of content analysis. In the part of the survey, the questionnaire that is used is created following the example of the Likert scale with options from 1 (I do not agree) to 5 (I fully agree).

From a methodological point of view, in an effort to establish the impact of human resource management practices on the development of enterprise innovation in the Republic of Macedonia, the research is primarily based on analytical descriptive methodology, which aims to select relevant knowledge that will respond the essential questions posed in the research. The inductive and deductive locking procedure was used in the conclusion section.

In accordance with the basic objective of this paper to determine the general situation in Macedonian enterprises on the issue of creating innovation based on strategically developed human resource management, the research

was conducted on the field through polling of selected enterprises in the Republic of Macedonia, whose structure and characteristics we have already described.

From the conducted research and processing of the collected data, results were obtained based on which the relevant conclusion can be derived for the hypothesis as follows:

SET HYPOTHESIS: *The choice of human resource management practices that encourage and strengthen individual innovative capabilities, influences innovation as a sustainable competitive advantage for enterprises.*

Table 1: Results from χ^2 - test

| Chi-Square Tests | | | |
|------------------------------|----------------------|-----|-----------------------|
| | Value | df | Asymp. Sig. (2-sided) |
| Pearson Chi-Square | 208,949 ^a | 180 | ,069 |
| Likelihood Ratio | 111,175 | 180 | 1,000 |
| Linear-by-Linear Association | 13,026 | 1 | ,000 |
| N of Valid Cases | 31 | | |

a. 208 cells (100,0%) have expected count less than 5.
The minimum expected count is ,03.

From the conducted testing on the set hypothesis, the following values were obtained:

- Chi-Square value is 208,949
- The probability of the Chi-Square test (p) is 0,069

Since the value of probability of chi-square test (p) is greater than the alpha level of significance of 0.5 we can conclude that the hypothesis:

The choice of human resource management practices that encourage and strengthen individual innovative capabilities, influences innovation as a sustainable competitive advantage for enterprises – is rejected.

The obtained values from the testing of the hypothesis and the conclusion by which the set hypothesis is rejected, indicates that there is no correlation between innovation achieved through operation of enterprises in the Republic of Macedonia and the way in which these companies are managed, especially in the area of human resource management.

Conclusion

Strategic human resource management is a long-term approach that should look at human resource management as assets, i.e. investments that will ensure the achievement of the organizational objectives, but is this the case in the enterprises in the Republic of Macedonia?

Contrary to the scientific claims that human resource management should be fully integrated with the organization's strategy and its needs, the survey showed that this kind of connection is absent in enterprises in the Republic of Macedonia.

Considering the fact that the research covered exclusively innovative enterprises, it can be concluded that Macedonian enterprises do not base innovativeness on strategic direction on managing the employees as resources and maximizing their innovative potential for the needs of the organization, but in this case innovation is based exclusively on the set of attitudes and values that the employees nurture and the mutual relations that they establish among themselves.

Macedonian companies have not yet given the deserved function of human resource management, and it is still used for the most part for administrative purposes. Such a placement of things leads to the conclusion that human resource and its management in Macedonia is not yet recognized as a pillar, a carrier of innovation and systematic management with it is yet to be developed.

Macedonian enterprises should strive to improve the ways to make greater use of their own resources in order to ensure continuous progress. In this sense is the need to enrich with new scientific knowledge about the situation with human resource management in Macedonian enterprises and to create valid recommendations for its development and improvement. On this issue for Macedonia it is crucial to acquire professionals in the field of human resource management (which implies investments in training and skills development, application of foreign experiences, etc) in order to gain and raise the level of human resource management in companies, to use it for strategic purposes, rather than for the current administrative ones.

Macedonian companies must recognize not only the general meaning and benefit of professional human resource management, but also to learn and exploit the opportunity that it offers to direct the organizational capacities towards achieving specific objectives, such as innovation of enterprises.

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