Competitiveness through People

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Managers are becoming more aware of the value that investment in human resources, as opposed to expenses in intangible assets can produce at the company level and that human resource activities can focus on key business concerns, and in turn drive greater growth and eventually higher market value. In this framework, the core-competency perspective focuses attention on the importance of knowledge creation and learning processes for building and maintaining competitive advantage in a world defined by globalization, demographic change, and the rise of the knowledge worker. The effective management of Romanian companies can represent an advantage in a competitive business environment, shaped by the end of transition, the EU membership and the globalization process. Our paper explores the major shifts that are occurring in one critical activity related to human resources, and looks to management education as a solution for current performance business issues for Romanian companies.
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Introduction

The Romanian business environment is currently facing a series of challenges that need to be addressed properly in order to gain a strong position in the European business framework and maintain it over the long run. The first challenge comes in the form of an increased maturity of Romanian companies that can be observed through the adoption and

use of modern business techniques and market approaches and is reflected in an intensified competition in almost all business areas and industries. Starting with 1993, the year when the Association Treaty to EU was signed, it was obvious that the Romanian society and the Romanian business environment in particular will suffer major changes until and after the effective membership to EU. This represents the second challenge that Romanian companies are confronted with and is also reflected in an increased competition, but manifested on a different level. As such, Romanian companies see on their domestic market the presence of European companies, generally unrestricted and open, and are forced to operate in a larger business environment and to compete with companies that lived in a market economy and are using business strategies that are more or less new to their Romanian counterparts. The third challenge is represented by the greater than ever extent of the globalization of business, which forces Romanian companies to compete not only at a European level, but at a global level, with firms with more experience and knowledge than theirs.

Given these considerations, the question regarding the ability of Romanian companies to successfully be present in such an environment where geographical boundaries disappear one by one is appropriate. This ability is based, in our view, on the competitive advantages that Romanian companies possess and will build in contrast to their European and global counterparts. Besides traditional sources of competitive advantages, the effective and modern business management is certainly the must that Romanian companies should possess in order to have a word in this new setting that confronts them. The mastering of modern management strategies will definitely help Romanian companies consolidate their competitive positions in the European and global business environment. At the same time, the efficient management at the microeconomic level will have positive influences on the economic growth, by avoiding negative phenomena that can affect the communities from which the companies originate, the work places and the environment.

Human Resource Management In The Knowledge Economy

Today, most managers recognize the strategic implications of the knowledge-based economy and understand that skilled and motivated people are critical for the success of any firm that wishes to remain competitive in the new economy currently emerging. In the late 1980s, the search for more dynamic and sustainable advantage led many managers to supplement their analysis of external competition with an internal competency assessment. Pfeffer (1994) describes how changing market conditions reduced the importance of traditional sources of competitive advantage, such as patents, economies of scale, access to capital, and market regulations. Although this change does not mean that such assets are not valuable anymore, it is now evident that they are not able to offer to a company needed differentiation in a global economy that is being driven by innovation, speed, adaptability, and low costs. This realization came with the understanding that resources and competencies will be more and more difficult to imitate, so, in that framework, the core-competency perspective needed to focus its attention on the importance of knowledge creation and learning processes for both building and maintaining competitive advantage. In such an economy, core competencies and capabilities of employees that helped develop new products and provide world class customer service, and also implement organizational strategy become more influential (Becker, Huselid, Pickus, Spratt, 1997).

Regrettably, at the time, companies did acknowledge that their employees, no matter their level within the hierarchy, were not prepared for the new knowledge-intensive tasks. By definition, competency-based strategies are dependent on people, since scarce knowledge and expertise are the factors that drive the development of new products and personal relationships with customers are central to a flexible market response to firm actions. Individuals started to be seen as a key strategic resource, and business strategy was increasingly directed toward a human resource approach. The implications for top management were profound. First, human resources issues should be moved higher in the

company's hierarchy and on the agenda of company strategic priorities. Secondly, and even more significant, traditional strategic planning processes would have to suffer a transformation that includes financially calibrated performance measurement and reward systems that would recognize the strategic importance of human resources, apart from company financial resources.

As more and more companies understood decisive importance of human resources the so-named "War for Talent" began. This concept was pioneered by McKinsey researchers, who in 1997 conducted a yearlong survey, entitled, "The War for Talent" and then published updated research in 2001 (see Michaels, Handfield-Jones and Axelrod, 2001). Additionally, Bartlett and Ghoshal (2002) made the case for the evolving role of human resources and saw human resource professionals as key players in the design, development, and delivery of company strategy.

More recently, Merritt (2007) advances the concept of "human capital management" to allow for a more significant role of human resources within a business. She sees that concept as providing decision support for CEOs and CFOs through combining business and workforce intelligence that is aimed at the development of enterprise human resource strategies, for example, effectively leveraging people and their ideas to achieve key business goals, as well as improving business processes, benefiting from technology investments, and increasing productivity. Also, Stavrou, Charalambous and Spiliotis (2007) point toward the new role played by human resource functions in organizational performance as translated into service quality, productivity and performance, depending on the geographical context, on the one hand, and organizational context, on the other hand. The functions the authors consider are planning, staffing, training and development, compensation, and communication and participation. They apply their study to European countries and that training and development practices are strongly related to organizational performance, followed by communications. Their results prompt the emergence of a new link between human resource management and superior business performance.

Surprisingly enough, ten years after the McKinsey research, the problems still remain acute, as companies are faced with such issues as a demographic landscape dominated by the retirement of baby boomers and the reluctance of young people to enter the workforce in the developed world, on the one hand, and doubts over the appropriateness of the human resources talent in many emerging markets. Judging by the most recent McKinsey quarterly global executives surveys, business leaders are deeply concerned. The 2006 survey indicated that respondents considered finding talented people the single most important managerial concern for the rest of the decade. The 2007 survey further revealed that nearly half of the respondents expect the amplification of the competition for talent and the increasingly global nature of that competition to have a major impact on their companies over the next five years, with no other global trend being considered nearly as significant.

Guthridge, Komm, and Lawson (2008) name three external factors that are forcing organizations to take talent more seriously: Demographic changes, globalization, and the rise of the knowledge worker. At the same time, they see managers not ready to give up the reactive manner they have employed thus far - for example, by hiring additional sales and marketing people only when new products are launched. In their view, the "short-termism" fostered by shareholders and investment analysts diverts management attention from longer-term issues, such as talent sourcing and career development. They state their case very precisely (Guthridge, Komm, and Lawson, 2008, p. 53) as: "Since investments in talent intangibles are expensed rather than capitalized, managers may try to raise short-term earnings by cutting discretionary expenditures on people development. This tendency may turn into a vicious circle: a lack of talent blocks corporate growth, creating additional performance pressures that further divert the attention and thinking of executives toward the short term."

Measuring The Business Impact Of Human Resource Management

Despite its increasingly recognised importance, human resource management is seldom analysed when the company's performance or its competitive positions are assessed. Traditionally, the performance of companies and of their business units is measured by financial indicators such as return on investment, earnings per share and net profits. Unfortunately for the human resource department, they are not the right measures to encourage the empowerment of employees and the proper use of people's capacities. Bühner (1997) identifies three major reasons why traditional financial and accounting indicators are not appropriated for the performance measurement in the case of human resources: (1) The performance of people is shown in financial and accounting statements in terms of costs only, as employees are too often regarded as costly liabilities rather than valuable assets; (2) Traditional financial measures, such as return on investment or earnings per share, foster short-sighted action in a company, and neglecting employees training is, unfortunately, one of the best examples that can be given; (3) Traditional accounting data are an instrument for remote control, which provide highly aggregated financial reflection of the real business processes, but do not provide real-time feedback for corrective action or a stimuli for continuous improvement or preventive action programmes needed in the case of employees' management.

Based on these hypotheses, Bühner proposes a system of human resource management indicators that avoids these shortcomings and focus management's attention towards human resources. This system represents a translation of the well-known DuPont model, designed by an electrical engineer of Du Pont Chemical, after the chemical giant bought a 23 percent stake in General Motors and was interested in understanding the new company's performance. Ensuing success of the model made it a first choice for major US corporations in their endeavor to improve performance and it remained the dominant form of financial analysis until the 1970s. Nevertheless, the model offers

insight into a company's performance even today, almost 100 years after its design due, on one hand, to its simplicity, and, on the other hand, to its ability to precisely point out the weak and strong points of a business, both in time and by comparing it to the industry or the economy as a whole. The Du Pont model explains the return on assets (ROA), by linking it to the company's efficiency and profitability, as follows:

$$ROA = \frac{\text{Net profit}}{\text{Total assets}} = \frac{\text{Net profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total assets}} = \text{Net profit margin} \times \text{Total asset turnover}$$

The first component of ROA, net profit margin, offers insight into company's profitability and ability to control costs, while the second component, total asset turnover, indicates how efficiently is the firm using its assets in order to generate sales. This decomposition of ROA shows that as net profit margin increases – profitability increases – and total asset turnover increases – efficiency of using assets increases - the return generated by the use of company's assets increases.

Besides this basic interpretation of ROA, there is much more insight one can gain by analyzing the root causes of the ROA level and changes in time. The two components of ROA – asset turnover and profit margin – find themselves into a trade-off type of relation, depending on the industry. As such, ROA can be achieved with various combinations of profit margin and asset turnover, with firms ranging along so-called "ROA lines": each line shows the combinations of the two, with high turnover accompanies by low profit margin and inversely. In an economy, one can find companies aligned along a different ROA level, with different efficiency and profitability levels. Also, when a dynamic analysis is performed at a company level, one can observe that the company remained under the same ROA line, but with changing components – the firm might have been forced to undergo through such changes due to the business environment characteristics -, or that

it moved on another ROA line, by changing one and/or another of ROA components.

Management Education –
A Solution For Management Performance

The value of management education for individuals, organizations and society is incalculable. Management education graduates are persons that like things to happen. For individuals, management education develops a portfolio of abilities necessary to make decisions, to communicate, to solve problems, to lead organizations; professional competencies to integrate and apply knowledge, a strategic view on management, adaptability to different businesses, personal wealth, and capacity to get involved in philanthropic activities. The connection between education and business started in 1881 when the businessman Joseph Wharton asked University of Pennsylvania to develop the first business school in the world. Since then, the impact of management education and the practice of an effective management can be seen at the level of organizations in the research developed that generated ideas, theories, knowledge that helps to increase the organizational efficiency; the application of new technologies; the production of goods and services to enhance the quality of life; facilitation of innovation. There is a very important relationship between business and society. Society depends on the business environment which creates wealth and contributes to higher quality of life. Business depends also on society. Management education contributes to the society through the creation of organizations that ensure a better life for participants; supply of goods and services; creation of wealth and opportunities for economic development; creation of jobs.

There are several forces that drive today's competitive and tumultuous market of management education: business school ratings (developed by important journals like Business Week, Financial Times, Forbes) that provide recognition of the quality of graduates; nontraditional competi-

tion (development of different types of programs in different formats and schedules, more or less relevant, more or less rigorous); emergence of corporate universities (corporations create their own programs that train their employees); fund raising mandate (business schools have to develop an important function of raising money for scholarships, centers of excellence, etc); ROI of business education (the high cost of programs has to be recovered, but there is a decline in high paying jobs and a commoditization of professional degrees); high students expectation (they perceive themselves as customers); rise in distance learning (as a nontraditional education); rising program costs (due to faculty salaries, recruiting costs, placement costs).

The concept of management training sits between the concept of management education and the one of management development.

Management education and development (Mintzberg, H., Managers not MBAs, 2003)

Management education	*Management training*	Management development
(concepts rooted in scholarship)	***(techniques and skills to connect)***	**(needs rooted in practice)**
Educators (Business Schools)	***Trainers, Consultants***	**Advisors, developers, Corporate academies**
Students	***Participants***	**Managers**
Educating zone	*Training zone*	Practicing zone

Personal development

Manager development

Management development

Organization development

The management training is offered by independent trainers or consultants and develops practical techniques and skills, mostly in the form of short courses.

Master of Business Administration (MBA) is a professional degree in management needed by those that want to operate in business. MBA is synonymous with professionalism and maturity and more often it is a sine qua non condition for a top managerial position. According to a

study published in The Economist in October 2003, more than 50% of the CEOs of corporations in North America and Western Europe have a MBA degree.

The concept of MBA was born at the beginning of the 20th century in US. Business schools have their origin in a pragmatic mix of intellectual challenge, social need and practical efficiency. Since then the content of MBA programs was continuously reshaped to answer the needs of a changing business environment. In the past 20 years we can identify some trends for the MBA programs: reduction of the length of programs; different forms of MBAs: intensive or full-time, part-time, executive, international; internationalization of MBAs.

One cannot talk about an MBA program without taking into account three important aspects: (1) skills: an MBA offers managerial knowledge, but it should develop skills like teamwork, leadership and communication, necessary for a competitive management; (2) networking: an MBA diploma offers access to a network of graduates, professors and business people; (3) brand: an MBA diploma is a recognized brand, a mean to construct a successful business career.

In Romania after 1989 there is a national need for new professional business people trained to work in a global, market-oriented, competitive environment. Naturally, the market for professional business education was perceived to be an open one and training providers could comfortably assume a constant demand for their products. Seventeen years later, that market has been infused with a variety of institutions offering different types of business training.

At present, businesses and business schools face some major challenges at the global level:

1. Preparing the new generations of business leaders: the skills and competencies necessary to be taught in business schools are changing.

2. Optimizing the research in business schools: research themes should be relevant for businesses and not for academics and there should be an effective way to communicate results to business leaders.
3. Meeting the challenges of globalization: globalization affects business schools too, as they have to prepare graduates capable to face global challenges.
4. Mutual and increasing engagement between businesses and business schools: the involvement of the business community in the development of business schools, making sure that the graduates are prepared to face the business realities, which can be made through Advisory Boards, but there should be also other ways to be developed.

Under these circumstances, the Romanian market for MBA programs is, in our opinion, at a crossroads. A number of unresolved issues must be taken into account by MBA programs with the goal of creating a true competitive market for this type of postgraduate programs.

(1) The legal framework for the functioning of MBA programs has been unclear in the past years and it continues to be so, particularly when we refer to the Bologna process. MBA programs do not benefit from a special reference in the Romanian legislation, as they have always been considered master programs. During communist times, there was no such degree as MBA and the managerial studies in universities fell under the academic degree structure rather than the professional degree assigned to MBA in the Western world. But this manner of considering MBAs is blind in recognizing the major differences that exist between traditional master programs (either in form of Master of Sciences or Master of Arts) and MBAs. MBA programs have a strong pragmatic feature that is incorporated in the teaching process in all the courses being offered to students. Students are not ordinary: they are typically benefiting from strong practical experience and most of them hold middle to top management position in local or international companies. Ignoring at least these two particularities of MBA programs leads to a disturbing confusion among potential candidates. The current

legislation (Law 288/2005 and HG 404/2006) states that master programs aim either at strengthening knowledge acquired during graduate studies or at gaining complementary competences in other fields. Under this ruling, MBA programs fall into the second category, at the same level with other master programs, more or less different in terms of curricula, objectives and competences offered to graduates. At the same time, this opens the competition to all master programs that somehow position themselves as MBA-type programs, although being far in reality from the MBA structure and requirements. Under these circumstances, the accreditation of the MBA degree becomes a critical issue, since it is not officially recognized as a degree by the Romanian Ministry of Education. We believe that the special recognition of this degree would represent a major advancement in the consolidation efforts of Romanian MBA market.

(2) Partnerships with local and international businesses are essential to the success of MBA programs. These partnerships can embrace many forms, from companies financing MBA studies for their management, to CEOs and other top managers teaching in MBA classes, to projects developed in cooperation with businesses, and to the involvement of businesses in the schools' boards. A good example in this direction is represented by the Small Business Development Centers (SBDC) found in US schools, which receive funding and support from the Small Business Administration, are housed within a university, and offer training and counseling to small business owners and managers.

(3) Partnerships with European and American MBAs, which include the recognition of the graduation diploma, are a magnet for any potential candidate for an MBA program. As the European educational framework encourages student mobility and the financing of graduate studies becomes accessible, such partnerships are, perhaps, one of the most powerful tools in attracting local students, willing to maintain their jobs and study at the same time.

(4) The development of strong and supportive alumni networks is another must for the performance of MBA programs in Romania. Alumni networks are everywhere in the Western world an indispensable body attached to MBA programs, as they assist schools' management in designing the appropriate curricula and adapting it to the needs of the local business environment, sometimes different from the traditional MBA curricula taught in Western schools.

(5) Faculty training, development and retention lies at the heart of a successful program. At present, Romanian MBA programs share faculty with universities and do not dispose of their own faculty. As the skills required by performing teaching in MBA programs are quite different from those needed in undergraduate and MSc and MA programs, we recommend the building of an independent faculty, teaching and researching within and for an MBA program. This would also prevent the use of the same faculty by many programs, which affects the natural role of competition in the market.

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