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EMPIRICAL RESEARCH ON REMUNERATION AS A MOTIVATION FACTOR IN INSURANCE INDUSTRY IN THE REPUBLIC OF CROATIA

Summary: *The research is focused on remuneration as a motivation factor on performance in insurance industry. It is based on the empirical methodology of data obtained from reports of insurance companies in Croatia. We used the cumulative data of the Croatian Insurance Bureau of May 2015, when 26 insurance companies charged a total gross premium of HRK 4.1 billion, which was 4.26% more compared to the same period the year before. The largest share comes from classical life insurance with the premium of HRK 1.1 billion (17.49% higher than the previous year), which accounts for 85.96% in the life insurance group, or 27.95% in the total premium. The following are life insurance or annuities where the policyholder bears the investment risk with gross written premium of HRK 110 million and the share of 2.69% of the total premium (116% more than the previous year); then supplemental life insurance with written premium of HRK 61 million and the share of 1.50% of the total premium (drop of 0.99%); annuity insurance with written premium of HRK 13 million (increase of 36.78%), and marriage and birth insurance with written premium of HRK 2.5 million (drop of 5.71%).*

Key words: *motivation, remuneration, insurance industry.*

Introduction

In Croatia there are currently 25 insurance and two reinsurance companies, out of which seven are engaged in the life insurance, eight in non-life, and ten of them in both types of insurance. According to the ownership structure, 16 companies are majority-owned by foreign capital, and 11 of them are in domestic ownership.

Insurance products are divided into two main groups: non-life and life insurance. Non-life insurance consists of 18 different sub-groups, each one having different types of security. In the portfolio structure there is explicit inequality in the distribution of certain types of insurance, with six types covering about 90% of the total portfolio: compulsory car insurance 30%, comprehensive car insurance 11.9%, property insurance against fire and other hazards 5.9%, other property insurances 7.6%, insurance against accidents 5.8%, other non-life insurance 11.5% (each with less than 3% share), and life insurance 27.3%.

In this paper we will analyze the insurance industry in Croatia, with a special focus on human resources and systems of remuneration, development of new products and innovation of existing insurance products. This sector is facing significant challenges, but in turn, these changes provide new opportunities. In Croatia, due attention is paid to innovative capabilities in order to achieve positive business growth. An insurance company is a specific form of financial organization and its special feature is the possibility of a specific dispersion of human, material and financial risk in time and space. Insurance activities have a strong impact on economic development of a country, being an important factor in the stability of the financial system, with resources that could easily be invested in country's priorities.

The insurance industry is based on the activities of insurance, coinsurance and reinsurance, as well as the activities directly related to insurance activities. Insurance activities are engaged in insurance from events that may be harmful to human health and assets, while coinsurance applies to an agreement on distribution of risk between insurance companies. Reinsurance is the insurance of excess risk above the retention limit of an insurance company.

Business policy is the basis of an insurance company management and it stems from its mission, objectives and strategies. In order to be successful, the insurance companies must adapt to global competitive strategy, and continuously invest in research of competition, human resources and systems of remuneration. Basic business policies of insurance companies are: market, human resources, product, financial and development policies.

Research purpose and objectives

Globalization as an economic phenomenon penetrated into all aspects of economic life and has brought into question the entire set of management methods, models and tools that had been efficiently used by the 1980s. The fundamental concern of this research is how to raise work effectiveness and efficiency, and how to attract and retain the best employees, thus strengthening the competitive advantage of the company. The answer is in the comprehensive system of motivation and remuneration and its implementation in companies. Remuneration systems can be individual (according to job complexity and working conditions, or performance), or at the company level (share in company profit, stock ownership, team and group bonuses). The objective of a modern organization is to see all business processes as knowledge processes which includes the creation of knowledge, its expansion, upgrade and applications. The most productive companies try to actively involve employees in company's activities by making their work joyful. The purpose of this research is to investigate and analyze determinants of competitive advantage, human resources and

remuneration system, the strategy of achieving competitive advantage dependent on human resources and compensation system in conditions of strong competition. On basis on this research, the goal is to define structure, function and role of human resources, and to build models of remuneration system that will contribute to the competitive advantage of the insurance company. In order to achieve the objectives and successful strategic management of the company, it is necessary to develop a successful motivational system.

Research objectives:

The purpose of this paper is to show in theory and to empirically prove the connection between human resources, remuneration system and competitive advantage on the pragmatic example of insurance companies. Major companies have established various forms of remuneration: the possibility of advancement, attractive jobs, education and training, traveling, developing contacts, various perks, as well as strictly financial forms: incentives, bonuses, fees, business cards, insurance, loans, share in profit or a partnership. There is no successful and unique remuneration model, but various systems and models arised from different experiences and opportunities. The basic objective of the proposed research is to investigate theoretical assumptions and case studies on the impact of human resources on company's performance and remuneration system and to analyze its role in company's competitive advantage. A good quality model of remuneration is essentially based on a very simple assumption: what is measured becomes visible, and what is rewarded becomes important.

The significance of this theoretical and empirical research is gaining sustainable competitive advantage that is reflected on human resources and remuneration system of employees in order to improve competitiveness of enterprises in Croatia. In order to survive under conditions of strong competition, the insurance company has to constantly consolidate its own image through increasing relational capital, especially increasing satisfaction of the insured. One of the most effective ways of tracking customers' satisfaction is mystery shopping¹. That is why it is necessary to monitor the competition and to please the consumers better (Siguaw et al., 1998; 1987).

Through questionnaires and personal contacts most users have chosen the quality of services and friendly staff as two most distinctive features of a good insurance company. The concept of key or supporting competencies is the concept of resource approach to strategy of competitiveness. For that concept most meritorious are Gary Hamel and C.K. Prahalad (Hamel and Prahalad, 1990), the authors focused on the so-called internal competitiveness. Many systems conduct valuation through feedback in order to recognize a deviation. Feedback provides information about the damage, but it does not prevent it. That is why values are important and all human decisions and ethical actions are based on them. In their book "Results-Based Leadership", Ulrich, Zenger and Smallwood (Ulrich, Zenger and Smallwood, 1999) claim that the highest quality among short-term and long-term results choices are achieved by "leaders with an articulated set of values... Leaders who understand their company's and their personal values build lasting results... Lacking clear values, rudderless leaders

¹ Information provided by mystery shopping is extremely important because in this time of growing competition and increasingly demanding customers, they expect the best service at all times, while at the same time companies are at high risk of latent customer dissatisfaction.

constantly shift from goal to goal." The survival of insurance companies depends on the number of clients, cost management efficiency and the remuneration. These objectives define the choice of performance measurement system.

This requires a scientific approach, as well as improvement of infrastructure and human resources management. The research emphasizes that human resources management is the only long-term competitive advantage.

The essence of research

Based on theoretical research and empirical studies in this field, we have proposed the working hypothesis and four alternate hypotheses to be tested in this study.

Successful business is based on efficient use of capital, both financial and technological capital, and human resources capital. Human resources represent a major resource of a company, financially and functionally. Human resources management should yield competitive advantage, boost productivity and increase market value. Using different methods and techniques for improving motivation it tries to ensure adequate competition in the market, which is vital in Croatia.

The working hypothesis:

H₀ The working hypothesis states that if we improve the remuneration system and human resource management in Croatian companies, through development and joint action, then the competitiveness of Croatian companies should increase on domestic and international market (remuneration system enables competitive advantage).

Faced with increased pressure from customers and dealers, insurance companies should be able to make changes within their services and speed up the development of new ones, in order to remain competitive. Among 500 world's leading companies, ranked by the total income, there are 45 insurance companies, eight of which belong to the top 50 European companies, according to Miro Stipić et al. (Stipić, Šustić and Krolo Crvelin, 2009). Investing in employees and their motivation is becoming one of the key requirements for quality and business performance of the company.

The alternate hypotheses:

H₁ There is empirically provable connection between the systems and practices of human resources management (remuneration system) and competitive advantage of insurance companies.

For defining of this hypothesis we were inspired by work of Karl Erik Sveiby (Sveiby, 1997) who developed the Intangible Asset Monitor, a non-financial instrument for measurement and management of intangible assets. However, it can not provide all relevant variables, as the flow of knowledge and intangible assets are complex and can not be included in standardized assessment. The total market value of every company, according to Sveiby, consists of two key components. The market value of the insurance company includes its material value (accounting) and three elements of immaterial (intangible) assets. Intangible Asset Monitor is the method of measuring and

presenting of relevant indicators of intangible assets. It consists of three basic components: the external structure, internal structure and employee capabilities.

H₂ The system and practice of compensation management create and maintain a competitive advantage by increasing human capital.

The hypothesis H₂ refers to the impact of remuneration system on company's competitive advantage. Human resources management combines activities and tasks related to people, their recruitment, selection, training and the like. This business function has gone through many development stages, from selection of applicants, their assignments, personal data storage, through vocational training, to forming of policy that encourages integration of all employees, develop people's interest, flexibility and quality of work, which finally merges company's interest and interest of employees.

Activities of human resources management should be considered as a process in which every single activity and function have a major role in building a successful and competitive company, with satisfied and effective employees.

H₃ In the insurance market, insurance companies have already introduced models of remuneration, but they are not able to provide quality incentives at present.

At difficult times, when the company undertakes austerity measures, it is important not to ignore the essential purpose of remuneration model. Quality remuneration model and its implementing is much better savings strategy than reducing or freezing wages. Reward strategy and pay structure should encourage individuals to see improvement in their own professional and personal development, instead of advancing to higher pay levels. This hypothesis is based on the fact that insurance companies today face a number of challenges on the way to profitability, business growth and competition. Cheap employees are always more expensive for the company because they are not motivated to work hard. If the company invests in employees' skills and knowledge, and motivates them at the same time, such employees may seem more expensive, but as they improve productivity and positive interpersonal relationships and competitiveness, they are ultimately cheaper. Remuneration system must be flexible and adapt to business conditions. Remuneration strategy changes, depending on the extent of the recession.

H₄ There is a positive impact of remuneration system on competitive advantage.

The purpose of remuneration system is rewarding excellence. Remuneration system becomes motivating when employees understand what they must accomplish to deserve the award. According to this hypothesis, there is a need of improving human resources through a variety of remuneration methods and techniques in order to ensure a fair competition in the market. Human resources, is a living element of the company that most contributes to company's competitiveness with knowledge, skills and creativity. Knowledge and creativity, rather than performance and productivity, become the basis of efficiency and success of contemporary organizations. To be successful in this highly competitive environment, means to continually improve the relation with customers, and to balance between its own efficiency and competitiveness.

Methodology

In this research we used various scientific methods, such as historical method, inductive and deductive method, analysis and synthesis, method of abstraction and

concretisation, generalization and specialization, method of proof and disproof, classification methods, interviewing, statistical method, and graphical presentation of statistical data. Theoretical analysis will be used to support the research with findings from international scientific and professional literature.

Methods of theoretical research:

The research has already started by collecting and analyzing literature in order to create database for theoretical part, and for design of empirical research. The following methods were chosen: inductive and deductive method, analysis and synthesis, generalization and specialization method, method of proof and disproof, classification method, method of description, method of compilation, comparative method, statistical method, modeling method, cybernetic method, systems theory, axiomatic method, empirical method, case study, survey, interviewing and observation method. This research should be considered as a systematic, critical, controlled and repeatable process of acquiring new knowledge, necessary (and sometimes sufficient) to identify, define and solve scientific (theoretical and empirical) problem. Using the method of analysis and synthesis, as well as induction and deduction, we will study some relevant theoretical and methodological aspects of human resources and remuneration system and their impact on a sustainable competitive advantage. Comparative method will be used in comparing similar phenomena, or to establish similarities in their behavior and intensity, and differences between them regarding remuneration systems in the field of insurance.

Empirical research

Conducting empirical research through survey, we will analyze the influence of remuneration system on a competitive advantage in insurance companies. The objective of practical part of the research is to analyze the orientation of companies towards human resources and remuneration system, and to test theoretical assumptions of the proposed model on a sample of Croatian insurance companies. The research would be conducted (Nadrljanski, 2010) through: 1) Research of theoretical findings on the factors that affect business sector competitiveness, and 2) Impact of human resources and remuneration system on business strategy as element of achieving competitiveness.

For this research we will use method of survey statistics, and descriptive and differential statistical methods. On the case studies we will analyze the possibility of applying certain research techniques: KM, CRM, MOT, Strategic Planning; Total Quality Management, Business Process Reengineering, Scenario and Contingency Planning, Supply Chain Integration, Open market innovation, Benchmarking, Core competencies, Mass Customization, Six Sigma, BSC and business intelligence. Theoretical discussion on empirical analysis in economics is as old as the economy science itself. In economy, the empirical method is a very important method by which the theoretical concept is compared with empirical facts in order to verify the theoretical conclusions. In modern economy, predominance of use of mathematical techniques led to the creation of "make-believe worlds" (Phelps Brown, 1972) and the feeling described by David Worswick (Worswick, 1972) that „there now exist whole branches of abstract economic theory which have no links with concrete facts and are almost indistinguishable from pure mathematics.“

In addition to knowledge, experience and observation, in building a business strategy it is necessary to use certain strategic tools such as SWOT matrix and VRIO

framework. SWOT (TOWS) Matrix presents a conceptual framework for system analysis. SWOT analysis is a qualitative analytical method which grades elements in 4 fields - possibilities, limitations, advantages, disadvantages - thus evaluating strengths and weaknesses, advantages and issues of the observed objects or phenomena. In evaluating company's strategy SWOT includes four key factors: strengths, weakness, opportunities and threats. Strengths and weakness are company's internal features, while opportunities and threats come from the environment. SWOT analysis identifies the business strategy that will make the best use of strengths, minimize the weakness, capitalize the opportunities and minimize threats.

VRIO Framework is a strategic tool which creates preconditions for a sustainable competitive advantage and allows top managers to choose identified resources (skills) as competitive advantage. The framework was developed by Barney (Barney, 1991), and its name derives from the first letters of expressions: Value – whether the resource is valuable in terms of neutralizing threats and exploiting environmental benefits; Rareness – whether the resource is rare among existing and potential competitors; Inimitability – whether the resource is too expensive or impossible to imitate; Organization – whether the resource is exploited by the organization.

Research plan is an important part of the research process, and it depends on the purpose, method and sample of the research.

The research task, besides resolving the factors of competitive advantage, must resolve the issue of human resources, motivation, remuneration system, the use of knowledge, adoption of new technologies, ways of strategic thinking of employees, and creation of knowledge of human resources with its contribution to competitive advantage in insurance companies. The strategy of human resources management system is based on three pillars or strategic processes in human resources management: recruitment, development and remuneration.

In the case study of insurance companies it is necessary to perform a detailed analysis of human resources and remuneration system from the standpoint of material aspects and intangible aspects of remuneration. The analysis of material aspects of remuneration will include the following components:

1. Analysis of remuneration strategy and policy in insurance companies;
2. Description of assessment activities carried out in those companies;
3. Description of the system of payment in insurance companies;
4. Alternative stimulating systems of remuneration in those companies.

It is necessary to pay attention to the following:

1) Analysis of remuneration strategy and policy in insurance companies: the objectives of payment management; factors affecting formation of remuneration strategies and salary; centralization of remuneration system; mid-level managers autonomy in determining subordinates' salaries; employee motivation; union influence.

2) Description of assessment activities carried out in insurance companies

Performance management provides an insight into certain skills, abilities and knowledge necessary at work. Based on available documentation, insurance companies will carry out analysis of existing solutions regarding systematization and job descriptions. The survey on employees in Croatian insurance companies will supplement this analysis. The survey is very popular, especially in qualitative research of some phenomenon. The questionnaire is a written collection of data on attitudes and

opinions in a representative sample. The tasks to follow are: defining the main business determinants and competencies required to cope with business tasks, collection and analysis of existing information on key positions, the application of technical tools and methods of activity assessment, interpretation of assessment results and providing the participants of assessment with feedback.

3) Description of payment system in insurance companies will cover:

purpose, models, concepts, and policy of remuneration; defining nominal wages and relation between fixed and variable pay; factors that determine variable pay and its calculation; one-time remuneration for: achieved objectives, proposals and innovations, outstanding results, special assignments, and company loyalty; special offers (regular and occasional); remuneration system in the life cycle of the company; employee participation in profit; joint ownership for most loyal employees; internal remuneration (types and impact); remuneration and motivational system relation; employee performance appraisal; and MBO-management by objectives.

4) Optional remuneration systems in insurance companies

A systematic comparative analysis, based on previous research will provide an overview of remuneration systems solutions realized in insurance companies.

Sources and methods of data collection

In theme elaboration and research we will use the following methods: analysis, synthesis, induction, deduction, comparative analysis, data analysis, documentation content analysis, and case study. The data will be obtained from domestic and foreign periodical publications, daily press and literature on competitive advantage, strategic management, human resources and remuneration system, and corporate social responsibility. The internet will also provide valuable information.

Methods of data processing

The data will be collected through surveys and processed by different statistical methods in order to determine some general regularities relevant to the subject of research.

Conclusion

Remuneration is a strong motivating factor for employees, which in turn gives the employer a better chance to achieve the objectives. The tendency today is to offer employees good and challenging business plans and fair wages. Major companies have established different forms of rewards through their business practice. Their experience is different and there are a lot of possibilities of remuneration systems and models. The governance structure, objectives and business policies are different from company to company, and employers decide on the best remuneration system. It is important to recognize all the employees whose work can contribute to better results of the company. Every work position should be precisely defined and measurable, so that employee could clearly recognize work capacities and conditions. An employer takes care of income and the total cost ratio in order to ensure profit, whereas an employee is not willing to take greater responsibilities if his efforts are not adequately rewarded. Remuneration depends on various types of factors and their number. The factor which is defined as primary, being more effective than the other ones, will be more represented in the overall remuneration. In some cases the primary factor would be better performance, in other cases - transfer of knowledge.

The most common forms of remuneration arrangements are:

- annual award payable upon establishing company's annual revenues, and
- incentives payable monthly, quarterly or semi-annually.

Employers are increasingly aware of the importance of human resources, an asset which is enough valuable to invest in.

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EMPIRIJSKO ISTRAŽIVANJE O UTICAJU NAGRAĐIVANJA KAO FAKORA MOTIVACIJE U OSIGURANJU U REPUBLICI HRVATSKOJ

Rezime: *Istraživanje je usmereno na nagrađivanje kao faktor motivacije koji utiče na postignuća zaposlenih u osiguranju. Zasnovano je na empirijskoj metodologiji podataka dobijenih iz izveštaja osiguravajućih firmi u Hrvatskoj. Koristili smo se kumulativnim podacima Hrvatskog ureda za osiguranje iz maja meseca 2015, kada su 26 osiguravajućih firmi naplatile bruto premije u ukupnom iznosu od 4,1 milijardu kuna, što je bilo 4,26% više u poređenju sa istim periodom prethodne godine. Najveći udeo pripada klasičnom životnom osiguranju, sa premijom od 1,1 milijarde kuna (17,49% više nego prethodne godine), što čini 85,96% u grupi premija životnog osiguranja, ili 27,95% u ukupnom broju premija. Slede životna osiguranja ili anuiteti gde vlasnici polisa nose investicioni rizik sa bruto iskazanom premijom od 110 miliona kuna i udelom od 2,69% u ukupnom iznosu premija (116% više nego prethodne godine); zatim dopunsko životno osiguranje sa iskazanom premijom od 61 milion kuna i udelom od 1,50% u ukupnom broju premija (pad za 0,99%); anuitetno osiguranje sa iskazanom premijom od 13 miliona kuna (povećanje za 36,78%), kao i bračno i osiguranje po rođenju sa iskazanom premijom od 2.5 miliona kuna (pad od 5,71%).*

Cljučne reči: *motivacija, nagrađivanje, osiguranje.*

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ЭМПИРИЧЕСКИЕ ИССЛЕДОВАНИЯ ВОЗНАГРАЖДЕНИЯ КАК МОТИВАЦИОННОГО ФАКТОРА В СТРАХОВОЙ ОТРАСЛИ В РЕСПУБЛИКЕ ХОРВАТИИ

Резюме: *Исследование сосредоточено на вознаграждении, в качестве мотивационного фактора эффективности страховой отрасли. Исследование базируется на эмпирической методологии данных, полученных из отчетов страховых компаний в Хорватии. Мы использовали кумулятивные данные Хорватского бюро страхования в мае 2015 года, когда 26 страховых компаний начисляли общую валовую премию в размере 4,1 миллиарда. Что на 4,26% больше по сравнению с аналогичным периодом прошлого года. Наибольшая доля приходилась на классические страхования жизни, с премией 1,1 миллиард ХРК (на 17,49% выше, чем в предыдущем году), что составляет 85,96% в группе страхования жизни или 27,95% от общей премии. Ниже перечислены страхования жизни или аннуитеты, когда страхователь несет инвестиционную ответственность, с полной письменной премией в размере 110 миллионов ХРК и долей 2,69% от общей премии (на 116% больше, чем в предыдущем году); затем, дополнительное страхование жизни с письменной премией в размере 61 миллион ХРК и долей 1,50% от общей премии (снижение на 0,99%); страхование аннуитета с письменной премией в размере 13 миллионов ХРК (увеличение на 36,78%), а также страхование брака и рождений с письменной премией в 2,5 миллионов ХРК (снижение на 5,71%).*

Ключевые слова: *мотивация, премия, страховая отрасль.*

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