

# Perspectives and competitiveness of Bosnian industry: Competitiveness enhancement through innovative solutions

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## ABSTRACT

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On global level there is a large supply-demand imbalance for the worker with the right set of skills. Similarly, it is observed in Bosnia as well. Even though the unemployment rate is high in the country, the industry is struggling to get talents they need from the local market. On the other hand, the job seekers are rather preferring to look for job opportunities in EU countries since the packages of benefits are more attractive there. Bosnian industry is mainly based on labor intensive business and it is focused on lower cost as competitive advantage. Using this competitive advantage, the industry generates insufficient added value to offer competitive package of benefit to demanded talents from the global labor market. They have to switch to a new competitive advantage on *differentiated* unique solutions to target groups that will provide them with increased added value.

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**Keywords:** Competitive advantage, Labor market, Demand-supply skill gap, Innovative solutions

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## 1. Introduction

Covid-19 outbreak has slowed the trend of emigration from Bosnia but it has not stopped. Factors encouraging the emigration are still presented in Bosnian society. Therefore, it is expected that the trend of emigration from Bosnia after the pandemic will continue. The primary factors to leave the country are the needs to improve living standards and solve unemployment issue [1] [2]. On the other hand, Bosnian industry is concerned about the lack of available talent, which reflects in recruiting as well as retaining its current employees. These are two confronting issues. On one side there is available workforce looking for the job opportunities abroad and on the other side Bosnian industry has unmet demand. The question is why this happen if there is about 10% of unemployed with university diploma, and about 60% of unemployed with various qualification [3]?

In this situation someone may ask two justified questions:

1. Why Bosnian employers don't want to hire the unemployed? or
2. Why Bosnian industry is not sufficiently attractive to local people?

To look for the correct answer, let's have insight in the structure of the unemployed as well as in the structure of the business that exists in Bosnia.

## 2. Demand-supply skill gap

Insight into the structure of the unemployed showed that there are about 60% (about 300,000) of various qualifications in the employment records, as well as about 10% (about 50,000) of the unemployed with a university degree. The logical conclusion would be that for many years in Bosnia exists business that do not need their skills / talents [4]. This thesis employers confirmed many times by today.

Skilled work forces are essential for every business. It is true that there is a large supply-demand imbalance for workers with the right set of skills (talents) on a global level, which is the case in Bosnia as well. This problem is easily solved. In the absence of a suitable workforce, employers can apply one of the very widespread ways

of reaching skilled workers: recruiting from the global labor market or training existing own workers for the skill they need. The gap between the required and supplied workforce set of skills will be solved.

To this end, employers need to become aware of the fact that Bosnia has become part of the global marketplace, including the labor market as well. Insight into the data shows that the employee turnover rate is multiple times above world's average and highly above the optimal for particular industry [5]. Therefore, the fact that Bosnian industry has a high turnover rate does not quite support the claims that there is a lack of qualified labor in the local market. It talks more about situation in an organization and anticipate the success of its business in the future. A high turnover rate is eroding employee morale and it is an indicator of organizational instability and lack of attractiveness for employees. Therefore, the right question is: Why Bosnian industry is not sufficiently attractive to the local people?

### 3. Attractiveness

Some industries are struggling with lack of workers [6]. As one of the examples is a business-to-business (B2B) company that published a vacancy for 400 positions in manufacturing but they received two applications only [7]. Therefore, the real challenge in upcoming period for Bosnian industry will be to make themselves more attractive to workers.

Looking to the structure of the Bosnian industry it is mainly based on labor intensive business. For the past 25 years, the official policy of the government has been aimed at attracting foreign investment. They pointed out "cheap" labor and "cheap" electricity as a competitive advantage. This campaign resulted in attracting investors who recognized the opportunity to reduce the cost of running their own business. This approach created a multitude of labor-intensive industries that are based on *lohn* business, "cheap" labor, "cheaper" electricity. The margin they achieved on the delivered products / services refers only to the labor. The domestic industry with such a strategic commitment to attract investment has become part of someone's else solution, instead of offering solutions to the others and generating additional added value based on knowledge, innovation and brands. The price of a product and service is proportional to the amount of knowledge built into that product / service.

*Lohn* business neglect the creativity of the company and it is acceptable only as a transitional solution to the other forms of business cooperation. Recently, there are some companies that have diversified, they are focused on innovations and branding. It is observed that mainly business-to-consumer (B2C) Bosnian companies are dominating in this approach but still insufficient. B2C companies in total employ significantly lower number of workers but they are also significantly more attractive to more-skilled workers, they pay significantly higher wages, and they are significantly more successful in exports. The reason is that B2Cs are predominantly based on creating added value that includes know-how and brands, dominantly offer solutions and they are rarely part of someone's solutions. Therefore, it is expected that B2C companies achieve higher margins and that they can afford attractive salaries for their employees. Also, this study showed that that investment in B2C companies and hiring more skilled workers significantly contribute to the increase of net salaries in B2C category. Significant positive relationship was found between the level of education and the number of employees in B2B companies, which implies that B2C are more knowledge intensive companies and as such they are more successful in business [8][9].

In contrast, B2B companies dominate in Bosnia, they are mainly labor intensive, they earn lower margins and consequently they pay significantly lower wages compared to B2C. In addition, they employ a significantly larger number of workers, in which, the number with higher education employees is significantly lower than in B2C. Local workers are increasingly finding more attractive and better paid job around the world since the local B2B are less attractive to them but B2Cs still have no potential to absorb them [8][9].

### 4. Conclusion

It is a high time for Bosnian companies to switch competitive advantage from *focused low cost* ("cheap" labor and "cheap" electricity) to *focused differentiation*. They have to start offering innovative solutions for the global market, but not be a part of someone's solution. This way they will generate significant added value affordable to solve the lack of talents they face, by simply recruiting them from the global market.

The existing model of competitive advantage was welcomed in the period right after the aggression on Bosnia to launch the industry. Today, this model is no longer sustainable if it is focused on the Bosnian labor market.

Existing companies operating on this principle are already facing the challenge of attractive the talents. In order to attract and retain talent, the package of benefits they offer to them must be competitive with those in the EU. To continue generating added value and afford market-competitive package of benefits, two options are available:

- **Diversification** - *Focused differentiation* as competitive advantage – Under this competitive advantage they will offer differentiated (customized solutions) solutions to narrow group of customers in global market, which will make them more competitive in the labor market.
- **Move to cheaper labor countries** - companies intended to keep running the same business with the *focused lower cost* competitive advantage, they have to look for cheaper labor countries.

Those who continue to do business in the same way that they are most likely to cause their own bankruptcy in the near future. Survival and the development of Bosnian business lies in *focused differentiation* as a competitive advantage, which includes customized solutions. Currently the business is predominantly labor intensive and have no potential to make salaries and benefit packages more attractive. Thus, this is warning sing for business owners to act as soon as possible to revise their business strategies. On this track, B2B companies must start thinking about diversification to less labor-intensive forms of business. They should start creating innovative products and services to create extra margin from know-how and branding. By creating and selling know-how, employers will generate significant added value and margin, thus they will make themselves more attractive for young workers, engineers, managers, etc. over the world.

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