

**UPRAVLJANJE LJUDSKIM POTENCIJALIMA I RADNI ODNOSI U  
JAVNOJ UPRAVI: RAZVOJNA PERSPEKTIVA**

**HUMAN RESOURCE MANAGEMENT AND LABOUR RELATIONS IN  
PUBLIC ADMINISTRATION: A DEVELOPMENTAL PERSPECTIVE**

*Pregledni znanstveni članak*

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***Abstract***

*This article examines the development of human resource management (HRM) in public administration, focusing on its organizational role and strategic development. It contrasts traditional HR functions with modern HRM and emphasizes its dynamic nature and strategic importance at higher organizational levels. The analysis highlights the impact of HRM on management tasks, in particular on the lifelong learning and professional development of civil servants. The study emphasizes the need to integrate internal and external strategies in order to increase the efficiency of public administration (PA). It looks at the impact of technological advances and changing working relationships, with skills such as foreign language skills, computer literacy, teamwork and motivation taking precedence over formal qualifications. This transition to a "knowledge society" emphasizes lifelong learning and the adaptation of skills. HRM uses various methods to assess employees' skills and align them with company goals. The article also examines how modern legislation reflects the evolving components of employment and necessitates new legal definitions that align with contemporary HRM trends. Finally, the authors discuss ways to further develop the Croatian HRM model, especially in PA, and propose a timeline for its possible improvement.*

*Key words: Employment relationship, human resources, components of the employment relationship.*

### **Sažetak**

*Rad istražuje razvoj upravljanja ljudskim potencijalima (ULJP) u javnoj upravi, s naglaskom na njegovu organizacijsku ulogu i strateški razvoj. Uspoređuje tradicionalne funkcije ljudskih potencijala s modernim ULJP-om te ističe njegovu dinamičnu prirodu i stratešku važnost na višim organizacijskim razinama. Analiza naglašava utjecaj HRM-a na menadžerske zadatke, posebice na cjeloživotno učenje i profesionalni razvoj državnih službenika. Studija ističe potrebu za integracijom unutarnjih i vanjskih strategija kako bi se povećala učinkovitost javne uprave (JU). Razmatra utjecaj tehnološkog napretka i promjenjivih radnih odnosa, pri čemu vještine poput poznavanja stranih jezika, računalne pismenosti, timskog rada i motivacije imaju prednost nad formalnim kvalifikacijama. Tranzicija prema "društvu znanja" naglašava cjeloživotno učenje i prilagodbu vještina. ULJP koristi različite metode za procjenu vještina zaposlenika i njihovo usklađivanje s ciljevima tvrtke. Rad također istražuje kako moderna legislativa odražava razvojne sastavnice radnog odnosa te zahtijeva nove pravne definicije koje su u skladu sa suvremenim ULJP trendovima. Na kraju, autori raspravljaju o načinima daljnjeg razvoja hrvatskog ULJP modela, posebno u javnoj upravi, i predlažu vremenski okvir za njegovo moguće unapređenje.*

*Ključne riječi: radni odnos, ljudski potencijali, sastavnice radnog odnosa.*

## **1. INTRODUCTION**

The development of Human Resource Management (HRM) in the context of industrial relations, especially in PA, reflects a significant change in the way organizations deal with their employees. The traditional concept of employees as "labour" one of the three fundamental components of the economy alongside capital and resources has gradually evolved into a more complex understanding of employees as human capital (HC). This shift

stems from the need to adapt the legal framework to include the development of employees and their broader role within the organization (Koprić et al., 2021). The term HC implies a holistic approach to employees that recognizes their social, creative and intellectual value and goes beyond the traditional view that considers employees solely as participants in production (Pusić et al., 2006). In the context of HRM, employees are viewed not only as workers, but as key resources whose skills and motivation contribute significantly to organizational success.

Two main approaches to this concept are: (1) the American model, which views HRM as an entirely new approach that redefines the role of employees within the organization, and (2) the institutional approach, which views HRM as an evolution of traditional labour relations (Koprić et al., 2021). Both approaches are based on the "human relations" school, which recognized the importance of a pleasant working environment for increasing work efficiency as early as the 1940s. This was later expanded into "neo-HR", which emphasizes dynamism and flexibility in human resource management. In the following sections, the historical development of HC as well as its role and function within HRM and the creation of a human resource management system (HRMS) in accordance with the applicable legislation in the Republic of Croatia (Labor Act, 2014) will be analysed.

## **2. DEFINING HRM AND ITS CRUCIAL ELEMENTS IN THE EMPLOYMENT RELATIONSHIP**

HRM is a key element of labour relations that has evolved from a simple concept of workforce to a more complex notion of Human Capital (HC). This path of development has enabled a more comprehensive view of employees, where they are not only seen as an economic labour but as an integral part of the organization whose knowledge, skills and abilities contribute to its overall success (Bahtijarević-Šiber, 1999). According to the Croatian Labor Act, the employment relationship regulates the rights, duties and responsibilities between employees and employers, but it does not explicitly define HRM (Labor Act, 2014). Within the framework of HRM, emphasis is placed on continuous investment in the development of human capital through education and professional development, which, according to Schultz's theory, is considered more effective than investment in basic

production resources (Bahtijarević-Šiber, 1999). Schultz (1961), who is considered one of the pioneers of the HC concept, emphasizes that investments in human capital through education are significantly more efficient than investments in tangible assets. This thesis confirms the need for a systematic approach to employees, in which HRM also includes socio-psychological aspects such as the work environment, job stability and employee satisfaction, which have a direct impact on their efficiency and consequently on the success of the organization (Pusić et al., 2006).

The concept of the "three wheels", which defines labour through its productivity and the creation of new value, laid the foundation for understanding HC and HRM in the context of modern management. In the newer approach, HRM goes beyond purely financial aspects and embraces a holistic approach that views the employee as an irreplaceable individual within the organization. This approach also recognizes the importance of interpersonal relationships and a positive work environment in maintaining a high level of work efficiency (Bahtijarević-Šiber, 1999). Complementary research in the field of HRM, such as the work of Armstrong (2006) and Storey (2007), further illustrates how HRM has become an important strategic resource in organizations. Armstrong (2006) emphasizes that effective HRM is based on the integration of business strategies and employee development, while Storey (2007) highlights how HRM has evolved from an administrative function to a strategic discipline that has a direct impact on organizational success. Finally, Ulrich (1997) made an important contribution by recognizing the importance of human capital as a source of competitive advantage and emphasizing that organizations must develop their human resources to ensure long-term sustainability and growth. To fully understand the concept of HRM, four important interpretations must be considered: as a scientific approach, as a specific business function, in the context of overall business operations, and as a unique management philosophy. These interpretations provide a comprehensive framework for further analysis and application of HRM in modern organizations.

### **3. THE ROLE OF HRM IN PA**

The human resource management (HRM) function in PA plays a crucial role in increasing organizational efficiency and achieving long-term

strategic goals. In contrast to the traditional HR function, which is usually static and focuses on procedural and legal aspects of employee relations, HRM in PA is characterized by flexibility, strategic planning and a long-term focus on improving the overall effectiveness of organizational structures (Pusić et al., 2006). As outlined in the Labor Act and the Act on Salaries in the State and Public Service in Croatia, HRM functions go beyond the rigid framework of personal functions and enable managers to act at all organizational levels and participate in consultative decision-making processes (Labor Act, 2014; Act on Salaries in the State and Public Service, 2023).

This strategic approach to human resource management also includes the development and implementation of systems for grading, promoting and hiring employees, as well as performance-related rewards. These systems are crucial for increasing employee satisfaction, promoting continuous professional development and improving communication and cooperation within the workforce (Brkić and Loje, 2016; Marčetić, 2013). The evolution of HRM in PA has introduced the concept of strategic management (SM), which integrates both internal and external planning processes. This modern HRM approach is in line with the broader organizational goals of PA and ensures that HR practices effectively contribute to the efficiency and success of public institutions (Gutić Martinčić, 2018).

#### **4. SM FRAMEWORK FOR LIFELONG LEARNING**

The strategic management framework for lifelong learning in PA aims to promote the continuous development of human resources (HR) in line with the goals of key legal frameworks such as the Labor Act and the Act on Salaries in the State and Public Service in Croatia. This framework emphasizes the importance of systematically investing in the skills and knowledge of public servants through continuous education and training to ensure that the workforce remains adaptable and able to meet the evolving needs of the public service (Labor Act, 2014; Act on State and Public Service Salaries, 2023).

Strategic Human Resource Management (S.HRM) emerged in the private sector in the late 20th century and focused on developing organizational capabilities by aligning human resource strategies with

broader business objectives. This approach has since been adapted for PA, where it plays a crucial role in improving organizational efficiency and effectiveness. The framework recognizes the need for both external market-driven planning and internal employee development-focused strategies that together contribute to the overall success of the organization (Koprić et al., 2021; Martin and Beaumont, 2005).

In this framework, lifelong learning is divided into two main aspects: individual training and the improvement of organizational capabilities. Continuous learning focuses on equipping individuals with new knowledge and skills to improve their professional capabilities. Organizational training, on the other hand, is specific training within the scope of the employee's job, aimed at improving performance and promoting career advancement within the organizational hierarchy. This dual approach ensures that public servants are not only well prepared for their current tasks, but are also motivated and equipped to meet future challenges (Choo, 2002; Gutić Martinčić, 2018).

The implementation of this framework in PA has led to the development of training programs and professional development initiatives conducted by specialized agencies, schools and within the PA itself. These programs aim to develop a pool of highly qualified professionals capable of contributing to the strategic goals of public institutions. The evolution of these practices, especially in Western European countries such as France and Germany, has shown that a well-structured system of lifelong learning can significantly increase the quality and effectiveness of PA (Koprić et al., 2021; Sigma/16, 1997).

Research by Brkić and Loje (2016) underlines the importance of investing in professional development. Their study found that the proportion of the budget allocated to the training of state employees was minimal compared to salary expenditure, averaging only 0.36% in Croatian ministries between 2012 and 2015. In contrast, similar research in the United States showed that investing around 10% of the salary budget in training led to productivity increases of 8.6% to 11%. This shows that targeted lifelong learning programs can have a significant impact on public sector performance (Brkić, Loje, 2016).

## 5. DIFFERENTIATED HRM APPROACHES IN PA

The differentiated approaches to human resource management (HRM) in PA reflect the complexity and evolution of the various management models applied in the public sector. By analysing the historical development, four different HRM models can be identified: the political, the administrative, the managerial and the integrated model. Each model is based on different principles and objectives that ultimately determine the direction, the management system and the exercise of authority and responsibility in HRM (Koprić et al., 2021; Jambrek and Goran, 2008). The political model is characteristic of pre-Weberian administrative systems often found in autocratic and less developed states. This model is characterized by centralized control where management is driven by political interests, resulting in an unstable civil service system that places little emphasis on professionalism or reward mechanisms (Jambrek and Goran, 2008). The administrative model that has emerged with the evolution of government structures is based on legal and social principles. It is known as Weber's model and emphasizes adherence to the rule of law and social awareness within the administration. The main difference with the political model is the job security for civil servants who are employed on a permanent basis. Appraisals are based on qualifications and professional skills rather than political loyalty (Marčetić, 2013; Koprić et al., 2021).

The management model of HRM, which was developed in the context of modern public management, emphasizes the principles of efficiency, effectiveness and economy - commonly referred to as the three E's. This model assigns individual managers responsibility for their respective organizational units, with HRM seen as an extension of existing knowledge through targeted training. However, it is characterized by job insecurity, with employment often being temporary and focused on specific outcomes based on specific skills (Dujmović, 2015; Koprić et al., 2021). The integrated model represents a contemporary approach to HRM that integrates legal, financial and social sciences. It systematically aligns HRM practices with public interest goals and ensures responsiveness, performance-based assessments and effective management at all organizational levels. This model emphasizes the institutional knowledge and professional skills

required for effective HRM, with decisions being made collectively by HR managers (Orlović, 2021; Koprić et al., 2021).

In Croatia, HRM practices within the PA have historically followed an administrative model that often contains elements of the political model. However, recent legislative reforms, such as the Act Amending the Labor Act (2023), the Act on Salaries in the State and Civil Service (2023) and the Civil Servants Act (2023), aim to make a shift towards a more managerial approach. These reforms promote fairness, fluidity and centralization in HRM processes and are in line with the broader strategic goals outlined in the national policy documents (Act on Amendments to the Labor Act, 2023; Act on Salaries in the State and Civil Service, 2023; Civil Servants Act, 2024). The implementation of the Civil Servants Act (2023) and its subsequent amendments (2024) is an important step towards modernizing HRM practices in Croatia. This legislation facilitates smoother transitions between state and public services and local government units, introduces centralized recruitment processes and improves systems for rewarding and sanctioning employees. These efforts are supported by strategic documents such as the National Plan for the Development of PA (2022-2027) and the Implementation Program of the Ministry of Justice and Administration for the period 2021-2024, which set out specific goals and measures to improve PA (National Plan for the Development of PA, 2022; Implementation Program of the Ministry of Justice and Administration for the period 2021-2024, 2021).

These legislative and strategic changes aim to retain top talent in the public sector by creating a fair and transparent system for evaluating performance and rewarding success. By introducing a structured salary system, harmonizing salary allowances and refining reward and sanction mechanisms, Croatia is moving towards a more dynamic and effective HRM approach that will ultimately improve the overall performance of the PA (Orlović, 2021; Gutić Martinčić, 2018).

## **6. CONCLUSION**

The evolution of human resource management (HRM) in PA represents a decisive transition from traditional labour management to a more differentiated understanding of employees as human capital (HC). This



shift reflects the need to adapt the regulatory framework to today's organizational needs and to recognize employees as essential assets whose competencies, skills and motivation are critical to organizational success.

The analysis confirms two primary approaches to HRM: the American model, which redefines HRM as an innovative and dynamic framework, and the institutional model, which extends traditional labour relations to modern HR practices. Both models emphasize the importance of a supportive work environment, strategic planning and flexibility. The historical development of HRM in Croatia, especially in PA, demonstrates this shift from static, procedural functions to a dynamic, strategic role focused on employee development and continuous professional development.

In defining HRM and its essential elements within the employment relationship, it becomes clear that a holistic approach to human capital is essential. The study confirms Schultz's hypothesis that continuous investment in employee training and development leads to significantly higher organizational efficiency compared to investments in fixed assets. This approach not only improves the performance of the individual employee, but is also in line with broader strategic organizational objectives, confirming the hypothesis that HRM plays a crucial role in achieving long-term sustainability and growth.

The role of HRM in PA is particularly important. The study supports the hypothesis that modern HRM, which is characterized by strategic planning, flexibility and a long-term focus, is more effective than traditional HR functions, which tend to be rigid and procedural. Recent legislative reforms in Croatia, such as the Labor Act, the Act on Salaries in the State and Civil Service and the Civil Servants Act, confirm the hypothesis that a centralized, fair and dynamic HRM system can significantly improve the performance of public institutions by aligning HR practices with national strategic goals.

The strategic management framework for lifelong learning confirms the hypothesis that continuous employee development is critical to maintaining an adaptable and capable workforce. By linking individual learning to organizational capability improvement, the framework ensures that public service employees remain equipped to meet changing demands. The successful implementation of similar frameworks in Western European

countries confirms the hypothesis that a well-structured system of lifelong learning is essential for improving the quality of PA.

The study of differentiated HRM approaches within PA, including political, administrative, managerial and integrated models, supports the hypothesis that different management systems have been applied in the past, each with varying degrees of effectiveness. The recent shift towards a managerial approach in Croatia, supported by legislative and strategic reforms, confirms the hypothesis that the evolution towards a more efficient, effective and equitable HRM system is necessary for a modern PA.

Future research directions: While this study has confirmed several key hypotheses about the role and influence of HRM in PA, future research could focus on empirically testing the long-term effects of recent legislative reforms in Croatia. Comparative studies between Croatia and other EU countries could provide further evidence of best practices and potential improvements in HRM. Furthermore, investigating the role of HRM in fostering innovation in public institutions, especially in the context of digital transformation, could provide valuable insights into how HR practices can be further developed to meet future challenges. Such research would not only refine HRM practices but also ensure that they remain aligned with both employee needs and organizational goals, confirming the continued importance of HRM to the success of the public sector.

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