HUMAN CAPITAL STRATEGY: HARNESSING THE ORGANIZATION’S COMPETITIVE ADVANTAGE.

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Abstract

This descriptive paper looks into the impact of human capital strategy on organizational performance. To better understand the role of human capital strategy to human resource management as a function, the distinction between human resource and human capital are viewed in the context of human resource management (HRM) and human capital management (HCM) respectively. An in-depth literature review was conducted to examine both the convergent and divergent elements between HCM and HRM. Various literatures suggest that both HCM and HRM aim to help the organization achieve its objectives and gain competitive advantage. However, HCM is more strategic in nature for it takes into account the present needs of the company at the same time the effects of present actions to the future of the organization. This is not to say, however, that HCM should replace HRM. HCM complements, supports, and strengthens HRM. Both are concerned with the process of people management. In HCS, human resource management practices are still necessary. These practices, however, become more strategic in HCM. It can be said then that HCM compensates for what HRM lacks to guarantee that the organization can fully harness its competitive advantage. Consequently, human resource management as a function will remain relevant even upon the execution of a human capital strategy.

Introduction:

Positive relationship between human capital and economic development has been well-established and exists accordingly. This human capital-economic development relationship is the macro-level view of the contribution of human capital. However, the contribution of human capital can also be viewed in a micro-level perspective: looking into its effects on organizational performance. Human capital, inside the organization, is defined as the knowledge, skills, and abilities of the employees that add value to the organizational operations (Siddiqui, 2012). It has two dimensions namely strategic value and uniqueness. Strategic value involves the employees’ ability to enhance both

¹Human capital improves productivity. Through education, a person is more likely to become efficient in transforming raw materials into goods and services that contribute to the country’s GDP, and thus to the nation’s economic well-being (Son, 2010).
the effectiveness and efficiency of the organization, make use of market opportunities, and counterbalance the
effects of threats. Uniqueness, on the other hand, determines how specialized the skills of the employees are (Lepak,
Takeuchi & Swart, 2011). The concept of uniqueness seemed to give birth to the concepts of firm specific and
general human capital. Firm specific human capital refers to the knowledge and skills acquired through education
and training that are specific to a particular firm. General human capital, on the other hand, refers to the set of
generic skills that are of value to a variety of firms (Marimuthu, Arokiasamy & Ismail, 2009).

Human capital has been recognized as a driver of organizational performance (Baron & Armstrong, 2007).
Consequently, strengthening the human capital inside the organization has started to become a norm especially in
today’s hypercompetitive and dynamic world. Organizations tend to go beyond the conventional methods of
generating competitive advantage (Siddiqui, 2012). The growing importance of human capital can be seen as the
reason behind organizations’ decision to execute a human capital strategy—a new and more systematic approach to
managing people in the organization (Hall, 2008). The execution of a human capital strategy entails incorporating
the principles of human capital management which has become controversial. Most organizations, if not all, are still
more acquainted with human resource management. People may think that the execution of a human capital strategy
makes human resource management as a function irrelevant. This “human capital strategy-human resource
management divergence” is the central focus of this paper.

This paper aims to discuss the impact of executing a human capital strategy to human resource management as a
function as well as the factors which guarantee the success of the strategy. This paper also presents the distinction
between human resource and human capital to give context to the discussion of human capital strategy. To clearly
see the distinction, human resource and human capital are viewed in the context of human resource management and
human capital management respectively.

Human Capital Management vs. Human Resource Management:-

Human Capital Management (HCM) refers to the process of determining the strategic direction of the organization
through the use of metrics. The use of metrics is believed to emphasize the view that people are assets who play a
pivotal role in maintaining the competitive advantage of the organization. Organizations, therefore, ought to invest
in the employees through a gamut of procedures which include employee engagement and retention, talent
management, learning and development of personnel. Furthermore, HCM provides a link between workforce and
organizational planning. It allows the management to know how its different policies and procedures help people
add value to the organization. It is an approach that considers people management as a strategic issue rather than a
mere operational matter. It aims to develop human capabilities which is the key to better organizational
performance. It is holistic in nature— involving all the processes and procedures that concern the organization
(Baron & Armstrong, 2007; Siddiqui, 2012).

The use of metrics is one of the defining features of HCM. It is perhaps because of the assumption that “what gets
stands a better chance of becoming successful within the context of an applied strategic business plan” (p.4). Becker,
Huselid, and Ulrich (2002) supported the idea. They argued that to appreciate human capital entails understanding
how to determine its contribution. Furthermore, measuring the contribution of human capital is a means to assess
how well they are used and what needs to change and done to manage them in a more effective way (Baron &
Armstrong, 2007). Measurement and metrics undeniably are important in HCM. However, it should be remembered
that HCM is more than measurement; it is the entire process of people management (Mayo, 2012).

Human capital, as viewed in the context of HCM, is concerned with the added value employees provide for the
organization. It refers to the capabilities of the persons, both learned and inherent, which add value to the
organizational operations (Siddiqui, 2012). In the concept of human capital, employees are viewed as intangible
assets (Mayo, 2012) which together with hard assets contribute to business success (Baron & Armstrong, 2007). The
concept of HCM highlights the idea that organizations should invest in their people. Investment in people entails
that the positive contribution of strengthening human capital may not be felt immediately. This implies that human
capital has a future dimension (Lepak, Takeuchi & Swart, 2011). Along with this is the idea that strengthening
human capital is proactive; it aims to provide viable solutions both forcurrent and future problems.

Human capital is an intangible asset which proves to be valuable to the organization. However, the question on how
exactly human capital generates additional value to the organization or how it contributes to organizational
performance needs further scrutiny. To be able to do this, human capital should be viewed as an essential element of intellectual capital together with social and organizational capital.

Intellectual capital is defined as the “total stock of the collective knowledge, information, technologies, skills, expertise, intellectual property, team management, and customer satisfaction that can be used to create organization wealth” (Khalique, et al., 2011, p. 253). As already pointed out, intellectual capital has three essential components: human capital, social capital, and organizational capital. Human capital which tends to be equated to knowledge, skills, and abilities of the employees (Wright & McMahan, 2011) is the main component of intellectual capital. It is the source of innovation and strategic renewal. The successful creation of intellectual capital largely depends on the competencies, intellectual agility, and dispositions of the employees inside the organization (Khalique, et al., 2011). Investment in human capital is expected to result to better employee performance, productivity, flexibility and the capacity of the employees to offer innovations. Social capital, on the other hand, refers to the factors that allow the people inside the organization to work collectively to realize mutual goals. These factors include trust, values, and certain standards (Siddiqui, 2012). Lastly, organizational capital refers to the capabilities that remain in the organization when its employees leave. It is the institutionalized knowledge the organization possesses which includes organizational competitive intelligence, routines, formulas, policies, procedures, and databases (Khalique, et al., 2011). All the elements of intellectual capital harness the ability of the organization to strengthen its core competencies which is necessary to survive in today’s competitive world.

Now that the concept of Human Capital Management has been discussed already, let us draw our attention now to the concept of Human Resource Management and examine both the convergent and divergent elements between HCM and HRM.

Human Resource Management (HRM) is a function which takes care of the various procedures and policies that concern the employees. These include recruitment and selection, compensation, training and development, employee retention, and organization development. Some have posited that in HRM, people are regarded as cost that ought to be managed accordingly. However, this view is not evident in the writings of prominent authors in the field (Baron & Armstrong, 2007). Significantly, according to Siddiqui (2012), HRM is primarily concerned with the demand and supply of workforce in the organization. It involves attracting and managing people to achieve organizational objectives. This idea is reinforced by Tan and Nasurdin (2011) who have described that HRM practices involves attracting, developing, motivating, and retaining employees to guarantee the survival of the organization. Furthermore, HRM is pertinent to day-to-day issues of the workforce (Siddiqui, 2012). This particular assertion implies that HRM tends to focus on addressing the current issues of the organization without necessarily considering the future. It can be argued that to some extent, HRM is present-oriented. It follows then that human resource takes into account the present value of the employee; how the people contribute to addressing the immediate needs and operational issues of the organization.

Based from the descriptions above, both HCM and HRM aim to help the organization achieve its objectives and maintain its competitive advantage. However, HCM is more strategic; it does not only take into paramount consideration the present needs of the organization but also considers the effects of present actions to the future of the company. It is also strategic in the sense that it is organizations-wide; all the procedure and policies ought to align with the business strategy of the organization. In relation to these, strengthening human capital is an investment which means the positive effects might not be felt instantaneously.

**Human Capital Strategy:**

Due to the promising features and strategic nature of HCM, many have proposed to utilize and execute it as a new human capital strategy. This new approach to managing human capital treats people as assets and manages them for the organization to make viable human capital decisions (Hall, 2008). In other words, the new approach aims to address the firm’s strategic needs by investing in its people. However, since the firm has various employee groups, there ought to be a differentiated strategy in managing these employees (Caspi & Toibin, 2011).

In HCM, as a human capital strategy, a manifestation of this differentiated strategy is the emphasis on improving the performance of those in critical roles or those that largely impact the firm’s corporate core competencies (Hall,

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2 Strategic renewal includes the process, content, and outcome of refreshment or replacement of attributes of an organization that have the potential to substantially affect its long-term prospects (Agarwal & Helfat, 2009).
Executing a human capital strategy is a strategic matter. It has repercussions that can greatly affect the firm’s sustainability. In this regard, the organization should take into account the various factors that can either aide or hamper the execution of a human capital strategy.

One of these factors is the talent present in the organization. Organizations must possess the capabilities to execute the new business strategy. They should identify the gaps between the sets of skills they currently have and the skills a human capital strategy demands (Smith, Silverstone & Lajtha, 2013). This is similar to the idea of Hall (2008) who affirmed that to execute a human capital strategy, the company must first guarantee that it possesses the organizational capabilities to deliver the strategy.

Another factor critical to the execution of a human capital strategy is organizational leadership. Organizational or firm leadership is viewed as one of the key factors for the survival of firms. An effective leader within the organization is characterized by having a holistic understanding of the company. He makes sure that the company commits to its business goals and objectives (Olsen, 2002). As already mentioned, the execution of a human capital strategy can affect almost every aspect of the organization. This calls for someone who has the ability to handle matter that can have decisive impact to the organization. This is to say that organizational leadership is indispensable to face critical issues (Marti, Gil & Barrasa, 2009).

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3 Organizational capability is the ability to establish internal structures and processes that allow the members to create organization-specific competencies (Ulrich & Lake, 1990). It represents the ability of the managers to understand principles and apply processes to effectively manage people (Ulrich & Lake, 1991).
Apart from organizational capabilities and organizational leadership, organizational culture is also a critical factor in relation to the execution of a human capital strategy. Organizational culture is defined as “the ‘personality’ of an organization that guides how employees think and act on the job” (Desson & Clouthier, 2010, p.1). If the organizational culture of the company impedes its ability to accommodate change and support business vision, then it is most likely that the implementation of a human capital strategy will fail. As Smith, Silverstone and Lajtha (2013) put it: “If a company’s culture does not support the new vision and value proposition, successfully realizing the strategy is an almost impossible task, even with clear support from the top” (p. 10).

Impact of a Human Capital Strategy to Human Resource:

The execution of a human capital strategy necessarily involves the incorporation of the prominent features of HCM to compensate for what the current model or approach lacks. In this regard, many seem to speculate that human resource management as a function will become irrelevant upon the execution of the strategy. Others are even looking into the possibility that HR practitioners will be terminated to be replaced by HC practitioners. However, Baron and Armstrong (2007) made a strong assertion regarding therelevance between HCM and HRM. They have purported that HCM does not replace HRM. Rather, HCM complements, supports, and strengthens HRM. Both are concerned with the process of people management. In HCS, human resource management practices (e.g. recruitment, training and development, employee relations) are still necessary. These practices, however, become more strategic in HCM. HCM, therefore, compensates for what HRM lacks to ensure that the organization can fully harness its competitive advantage. With these, human resource management as a function will not become irrelevant upon the execution of a human capital strategy.

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