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RESEARCH ARTICLE

**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.

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Introduction:-

Positive relationship between human capital and economic development has been well-established and exists accordingly. This human capital-economic development¹ 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 measured gets managed and gets attention” (Mayo, 2012, p. 2). According to Weatherly (2003) “what gets measured 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 for current 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 renewal². 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,

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).

2008). This is not to say, however, that lower positions in the organization should not receive any learning and development programs. They also receive programs relative to what their positions need. This makes a lot of sense given that there are four types of employees in relation to their strategic value and uniqueness: knowledge employees, job-based employees, alliance partners, and contract workers. Knowledge employees possess high strategic value and uniqueness. They are most likely to contribute positively to the core competencies of the organization. Consequently, HR is encouraged to manage these employees through employee empowerment (e.g. encouraging employee participation in decision-making). Job-based employees, on the other hand, are also important for the organization because of the value they create. However, these employees possess low uniqueness; they are readily available in the labor market. A traditional job-based orientation is used to manage these employees. This orientation focuses on productivity and immediate performance. Contract workers are most likely to perform tasks that are both limited in strategic value and uniqueness. Managing these employees is compliance-based. These employees have to follow rules and regulations, policies and procedures. Lastly, alliance partners are those who possess low strategic value but are unique. Given that they have low strategic value, the organization more often than not search for these people externally just like the contract workers (Lepak, Takeuchi & Swart, 2011).

Current Approach to Managing Human Capital:-

The idea of a human capital strategy seems to result from peoples' dissatisfaction towards the current approach to managing human capital. In today's HR model, the aims are not well-defined. It does not articulate how human capital relates to business results. On the contrary, Human Capital Strategy (HCS) clearly articulates how human capital drives business results. Apart from having unclear aims, today's model is egalitarian; it tends to treat all roles as equally important to the stakeholders of the firm. As previously mentioned, some roles generate more value compared to others. In HCS, it is assumed that focusing on the critical roles is crucial to boost up organization's competitive advantage. Another criticism of today's HR model is that it implements best practices and world-class programs that do not relate effectively to the organization as a whole. There are also no measures to determine the extent of human capital's contribution to the firm. Moreover, in today's model, HR regards employees as customers and not as business partners. Consequently, they seem to forget the external customers who can directly influence the stability of the organization. The HR model is also frowned upon because it is program-oriented without necessarily looking into the results of the programs. Lastly, today's model is reactive. Being reactive entails that the organization does not plan and anticipate problems. It only addresses the problems once they occur (Hall, 2008).

Organizational Factors Critical in Executing a Human Capital Strategy:-

Executing a human capital strategy is a strategic matter. It has repercussions that can greatly affect the firm's condition or status. As put by Caspi and Toibin (2011), it affects definition of roles, corporate culture, and management processes. The formulation and implementation of a human capital strategy, therefore, can impact organization'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 capabilities³ 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).

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 the relationship 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 HCM, 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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