HUMAN CAPITAL MANAGEMENT: THE NEW COMPETITIVE APPROACH

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Abstract
The aim of this paper is to highlight conceptual framework of the term human capital management (HCM) and to make a case that HCM can ensure competitive advantage for an organization. The concept of human capital is concerned with the added value people provide for organizations. It emphasizes that competitive advantage is achieved by strategic investments in those assets through employee engagement and retention, talent management and learning and development programmes. Data for this study by and large relies heavily on the review of available literature. The result of this study highlights the value of human capital (HC) and its strategic activities which have an influence on organizations performance and competitive abilities. The most important limitation of this paper was to use data from secondary sources that might limit the generalizability of the results.

Keywords: Human capital, Competitive advantage, Human resource management, Talent management, Strategies

INTRODUCTION
The term ‘human capital’ was originated by Schultz (1961) who elaborated his concept in 1981 as follows: ‘Consider all human abilities to be either innate or acquired. Attributes… which are valuable and can be augmented by appropriate investment will be human capital.’ A more
detailed definition was put forward by Bontis *et al* (1999) as follows: Human capital represents the human factor in the organization; the combined intelligence, skills and expertise that gives the organization its distinctive character. The human elements of the organization are those that are capable of learning, changing, innovating and providing the creative thrust which if properly motivated can ensure the long-term survival of the organization. Human capital management (HCM) is concerned with obtaining, analyzing and reporting on data that informs the direction of value adding strategic, investment and operational people management decisions at corporate level and at the level of frontline management. The Accounting for People Task Force Report (2003) stated that HCM involves the systematic analysis, measurement and evaluation of how people policies and practices create value. The report defined HCM as ‘an approach to people management that treats it as a high level strategic issue rather than an operational matter “to be let to the HR people”’. Nalbantian *et al* (2004) emphasized the purposeful measurement aspect of HCM. They define human capital as: ‘The stock of accumulated knowledge, skills, experience, creativity and other relevant workforce attributes’ and suggest that HCM involves ‘putting into place the metrics to measure the value of these attributes and using that knowledge to effectively manage the organization’. HCM is sometimes defined more broadly without the emphasis on measurement. Chatzkel (2004) states that: ‘Human capital management is an integrated effort to manage and develop human capabilities to achieve significantly higher levels of performance.’ And Kearns (2005) describes HCM as: ‘The total development of human potential expressed as organizational value’. He believes that ‘HCM is about creating value through people’ and that it is ‘a people development philosophy, but the only development that means anything is that which is translated into value’.

A characteristic of an organization is a source of competitive advantages if it is able to answer four questions, related with Value, Rareness, Inimitability, and Non-substitutability (VRIN) (Barney, 1991; Wright *et al*., 2001). Organizations create value through either decreasing product/service costs or differentiating the product/service in a way that allows charging a premium price (Barney & Wright, 1998). The resource-based view proffered that organizations may use three resources: physical, human, and organizational, to achieve sustained competitive advantage in their industry (Barney & Wright, 1998). Two of these resources: physical capital and organizational capital have proven to be duplicable by the competition and hence less likely to be sources of inimitability (Barney & Wright, 1998). Inimitability was regarded as a prerequisite for competitive advantage (Barney, 1991; Chadwick & Dabu, 2009). Human capital in addition to being regarded as an organization's main strategic resource (Bartlett & Ghoshal, 2002) has been recognized as having the potential to be inimitable because each employee had the ability to contribute in a unique way. The concept of
inimitability is related to the theory of human free will. The ability to contribute in a unique way would allow human capital to be linked with the resource-based view (Reed, Srinivasan, & Doty, 2009). The resource-based view proffers that when an organization’s internal resources were inimitable they could contribute to, and helped to maintain a sustainable competitive advantage (Castanias & Helfat, 1991; Chadwick & Dabu, 2009; Sariolghalam, Noruzi, & Rahimi, 2010). The resource-based model claimed that employees could be regarded as the most valuable asset that an organization possessed to increase organizational competitiveness, if managed strategically (Becker, Huselid, & Ulrich, 2001; Downes, 2007; Kazlauskaitė, & Bučiūnienė, 2008).

Objectives of the Study
The main purpose of this study is to reveal that human capital management (HCM) is essential to ensure the success of any organization which is based on the belief that an organization gains competitive advantage by using its people effectively and efficiently. Its secondary purpose is to discuss the implications for the HR professionals. In order to materialize this objective, the following specific objectives have been considered.

a) To focus the difference between human resource management and human capital management.

b) To appraise human capital as a distinctive resource for competitive advantage.

c) To find out the way through which we can make human capital a source of competitive advantage.

d) To establish the linkage between human capital management and organizational performance.

APPROACH OF THE STUDY
Secondary data have been used for the purpose of the study which were collected from research articles, textbooks and various published and unpublished materials. The paper reviews theoretical and empirical human capital (HC) literature, as well as the literatures on human resource management (HRM), and strategic human resource management (SHRM).

CRITICAL REVIEW OF LITERATURE
The issue of what contributes to competitive advantage has seen, within the strategy literature, a shift in emphasis away from external positioning in the industry and the relative balance of competitive forces, towards an acknowledgement that internal resources be seen as crucial to sustained effectiveness (Wright et al., 2001). The work of Penrose (1959) represents the
beginning of the resource-based view of the firm (RBV), later articulated by Rumelt (1984), Barney (1991, 1995) and Dierickx & Cool (1989). The RBV establishes the importance for an organization of building a valuable set of resources and bundling them together in unique and dynamic ways to develop firm success. Competitive advantage is dependent not, as traditionally assumed, on such bases as natural resources, technology, or economies of scale, since these are increasingly easy to imitate. Rather, competitive advantage is, according to the RBV, dependent on the valuable, rare, and hard-to-imitate resources that reside within an organization. Human capital in a real sense is an ‘invisible asset’ (Itami, 1987). The importance of the human capital pool (the collection of employee capabilities), and how it is managed through HR processes, becomes apparent, then, to the strategic aims of the organization. In terms of rarity: ‘If the types and levels of skills are not equally distributed, such that some firms can acquire the talent they need and others cannot, then (ceteris paribus) that form of human capital can be a source of sustained competitive advantage’ (Snell et al., 1996: 65). And in terms of inimitability, there are at least two reasons why human resources may be difficult to imitate: causal ambiguity and path dependency (Becker & Gerhart, 1996; Barney, 1991). ‘First, it is difficult to grasp the precise mechanism by which the interplay of human resource practice and policies generates value…second, these HR systems are path dependent. They consist of policies that are developed over time and cannot be simply purchased in the market by competitors’ (Becker & Gerhart, 1996: 782).

The importance of human capital to play role in gaining competitive advantage is greater than ever before because of it is crucial wealth, success and competitive advantage of the organization. “The strategic human resources management or the human capital is mean of gaining competitive advantage through one of the most important asset: its people” (Richard.W 2001). “The other sources of competitive advantage, like technology and physical resources are comparatively easier to emulate and transfer. “To create workforce that provide competitive advantage the firms create environment that provide knowledge, motivation, engagement that would be difficult for competitors to imitate” (Afioni 2007; Agarwal & Ferret, 2001; Luftman & Kempaiah 2007). “The competitors of the firm always try to employ better peoples for the job, so firms should constantly evaluate the human factor. Eric D. brown (2007) also concluded that the ability to create unique team is the most cost effective ways to create sustainable advantage”. The way in which the organizations manage its peoples can influence its performance (Peter & Watermann 1982). “The employee participation, empowerment and job design, including team based production system, extensive employee training and performance contingent incentive are widely believed to improve the performance of organisation” (Pfeffer 1994). Therefore, the crucial differentiating factor between companies can be how human resources are developed
and nurtured in particular organization” (Yazdani 2008). “The human element has grown in importance because knowledge has become a critical ingredient to gain a competitive advantage, particularly in the new economy landscape” (Grant, 1996).

Definition of Human Capital and human capital management

Human capital consists of the intangible resources that workers provide for their employers. Human capital represents the human factor in the organization; the combined intelligence, skills and expertise that gives the organization its distinctive character. Human capital is not owned by the organization but secured through the employment relationship. People bring human capital to the organization although it is then developed by experience and training. Davenport (1999) comments that people possess innate abilities, behaviors and personal energy and these elements make up the human capital they bring to their work. And it is they, not their employers, who own this capital and decide when, how and where they will contribute it. In other words, they can make choices. Work is a two-way exchange of value, not a one-way exploitation of an asset by its owner. A company’s human capital asset is the collective sum of the attributes, life experience, knowledge, inventiveness, energy, and enthusiasm that its people choose to invest in their work. Human capital is concerned with the skills, knowledge, innovativeness, capabilities and overall competence of employees. It represents the goods and services employees produce that brings revenues when there is investment of their knowledge, skills and other abilities (Issac, 2009). Choudhury and Mishra (2010) define human capital as individual’s knowledge, skills and expertise to ultimately make the company work and succeed.

Figure 1: The HC definition

Human capital management (HCM) is an approach to employee staffing that perceives people as assets (human capital) whose current value can be measured and whose future value can be enhanced through investment. An organization that supports HCM provides employees with clearly defined and consistently communicated performance expectations. Managers are responsible for rating, rewarding and holding employees accountable for achieving specific business goals, creating innovation and supporting continuous improvement. Hall (2008) defines HCM as a system for improving the performance of those in critical roles—those with the biggest impact on corporate core competencies. HCM provides decision support by combining business and workforce intelligence to the development of enterprise human capital strategies: how to leverage people and their ideas effectively to achieve bottom line business goals such as growing the business, increasing market share, margins, share price and decreasing cost, as well as improving business processes, benefiting from technology investments and increasing productivity. Finn (2003) defines HCM as all about ensuring that the enormous potential provided by people is aligned with the mission and strategic objectives of the business, to maximize their value on behalf of the stakeholders. Human Capital Management can also be regarded as the umbrella term of three separate management disciplines:

![Figure 2: The HCM definition](source: Marcel van Marrewijk and Joanna Timmers (2012))

In which Human Asset Management predominantly covers ‘operations’ and Human Potential Management corresponds with Human Development. The HCM-activities strengthen the commitment, dedication and motivation of individual employees, while companies show an increase of their basic assets: material (financial performance), commercial, socialization and creative assets (or intellectual capital).

**HRM vs. HCM: Is there a difference?**

Human resource management is a distinctive approach to employment management that seeks to obtain competitive advantage through the strategic deployment of a highly committed and
capable workforce, using an integrated array of cultural, structural and personnel techniques (Storey, 1995). Human capital management (HCM) has been described as ‘a paradigm shift’ from the traditional approach to human resource management (Kearns, 2005b). This change has been triggered by the proponents of the RBV, inspired by the characteristics of our global, information and knowledge-based-economy that consider people with their knowledge, experience, education, personality and behaviour as a source of competitive advantage (Barney and Wright, 1998; Lado and Wilson, 1994; Thite, 2004). In the opinion of Mayo (2001) the essential difference between HCM and HRM is that the former treats people as assets while the latter treats them as costs. Kearns (2005b) believes that in HCM ‘people are value adders, not overheads’ while in HRM ‘people are (treated as) a significant cost and should be managed accordingly’. According to Kearns, in HRM ‘the HR team is seen as a support service to the line’ – HR is based around the function and the HR team performs ‘a distinct and separate role from other functions’. Conversely, ‘HCM is clearly seen and respected as an equal business partner at senior levels’ and is ‘holistic, organization-wide and systems-based’ as well as being strategic and concerned with adding value.

The difference between human capital and human resources lies in the fact that while human resources is focused on the job performed by people, human capital is more concerned with the abilities and training people possess. Human resources may also be defined as a branch in an organization that oversees the recruitment of capable employees, while human capital is the measure of capabilities and skills the human resource department requires from prospective employees. Another way of looking at the difference between human capital and human resources is by looking at the different factors that make up the two concepts. Human capital can be explained by looking at it from a material point of view. Capital, in its general sense, refers to an investment that is capable of earning returns beyond the initial investment over its life span. For instance, a manufacturing plant may be described as a capital investment that will yield profits to the investors beyond the initial money used to purchase or set up the plant and any other operating costs. In the same sense, capital investments in human beings are also capable of yielding dividends beyond the initial money on investment.

The concept of HCM complements and strengthens the concept of HRM. It does not replace it. Both HCM and HRM can be regarded as vital components in the process of people management. HCM isn't different to HRM because of the processes it includes, but the strategic and people centered approach it brings to each of these processes. HCM takes HRM to the next stage and gives HR professionals the opportunity to identify and focus on real value creation activities.
Human Capital as a Distinctive Resource for Competitive Advantage

Creating an organization that relies on human capital for competitive advantage involves more than just improving on recruiting or adding new metrics. It means designing every organizational system with an eye to attracting, developing, retaining and motivating the best people. It is not a simple thing to do, but that is a significant positive for those that do it. It means they can have a competitive advantage that is hard to duplicate. The machinery, equipment, inventory, and other assets of the 21st century company have no real economic value without people to work them. Corporations, by leave of the accounting profession, continue to omit the value of human (Jeremy, 2013). Human knowledge and human skills are the real and the future 21st century engines of productivity. There is a “widespread perception” that the value of human capital may represent a significant proportion of overall corporate productive capacity relative to current assets and fixed capita (Jeremy, 2013).

<table>
<thead>
<tr>
<th>Basis of competitive advantage</th>
<th>HR role</th>
<th>Source of competitive advantage</th>
<th>Author</th>
</tr>
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<tbody>
<tr>
<td>Valuable, rare, inimitable and non-substitutable bundles of resources and capabilities.</td>
<td>HR value optimization</td>
<td>Internal</td>
<td>Kamoche (1999)</td>
</tr>
<tr>
<td>Managerial, input-based, transformational &amp; output-based competencies.</td>
<td>Competency development</td>
<td>Internal</td>
<td>Lado (1994)</td>
</tr>
<tr>
<td>Integration of specialized knowledge into organizational capabilities</td>
<td>HR training &amp; development</td>
<td>Internal</td>
<td>Grant (1998)</td>
</tr>
<tr>
<td>Resources &amp; capabilities gained/developed outside the firm boundaries</td>
<td>HR capability development</td>
<td>Interactional</td>
<td>Strandskov (2006)</td>
</tr>
<tr>
<td>Role behaviors required by competitive strategy</td>
<td>Stimulating role behaviors</td>
<td>Interactional</td>
<td>Wright (1994)</td>
</tr>
<tr>
<td>Horizontally &amp; vertically aligned HRM systems</td>
<td>Performance enhancement</td>
<td>Interactional</td>
<td>Ferris (1999)</td>
</tr>
<tr>
<td>Firm’s ability to perform activities at a lower price or in a distinct way; industry specific key success factors.</td>
<td>Support activity</td>
<td>External</td>
<td>Porter (1998)</td>
</tr>
</tbody>
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High skilled people are able to perform more efficiently their job and consequently they can reduce their unitary cost. Capabilities and, particularly, creativity of workers is a consequence of HC and yields more valuable products or services. Schneider & Bowen (1985) suggested that
employee attitudes would be consequently related to customer satisfaction. The value of a customer service depends on the employees’ ability to relate. HC can positively influence the organization’s performance by enabling it to comprehend the complexities of various transferred business processes and execute the processes satisfactorily by adhering to quality, security and timelines aspects (Budhwar, Luthar, & Bhatnagar, 2006). Rareness and inimitability is consequence of specificity of HC. Skills and knowledge of human resource need time to develop and should be updated constantly, which is costly and not possible for all organizations, making HC a rare resource; the tacit knowledge developed by social interaction in the organization makes HC an imperfectly imitable resource (Jin et al., 2010).

Figure 3: The HCM framework to create competitive advantage

![Diagram](source)


Human resources can easily move between organizations, therefore it should be difficult to protect HC from expropriation by rivals. Risk of expropriation is greater with codified knowledge because can be articulated, while tacit knowledge cannot be articulated and is isolated from rivals because it is embedded in the organization’s routines, human skills, and relationships (Liebeskind, 1996). Codified knowledge typically sustains competitive advantage only to the degree that organizations are successful in protecting it. Tacit knowledge may be so well protected from imitation that it is difficult to diffuse even within the organization where it originates (Hatch & Dyer, 2004). The portion of organization-specific HC that is tacit knowledge is particularly inimitable (Liebeskind, 1996). HC is most valuable and most inimitable when it is organization-specific and resides in the environment where it was originally (optimally) developed (Hitt et al., 2001). Context and specificity use of HC strengthen their inimitability.
In order for any characteristic of an organization’s HC to provide a source of sustainable competitive advantage, the organization must be organized to exploit the resource. Organization requires having in placed the systems and practices that allow HC to bear the fruit of their potential advantages (Barney & Wright, 1998). Sustainable competitive advantage is not just a function of single or isolated components, but rather a combination of HC elements such as the development of stocks of skills, strategically relevant behaviors, and supporting people management systems (Wright et al., 2001). HCM being based on HC assumes its characteristics as a source of competitive advantage, i.e., rare, inimitable, valuable and non-substitutable since it is specific to each company.

**How to Make Human Capital a Source of Competitive Advantage**

Making human capital a source of competitive advantage requires much more than making some quick fixes to a control-focused organization. It requires attracting and retaining the right people as well as organizing and managing them effectively. Attracting and retaining the right people is not easy, but most organizations can get it done if they devote enough resources to it. Actually developing and employing organizational structures and operating systems that lead to an organization’s human capital being a source or the source of competitive advantage is another story. It requires the right managerial behaviors as well as the right design of most of an organization’s major operating systems in order to create a Human Capital centric (HC-centric) organization.

![Figure 4: The human capital centric organization.](source: Edward E. Lawler III (2006))

Corporate boards can and should do a lot when it comes to human capital management in HC centric organizations. Boards should examine the effectiveness of their organization’s human capital management systems as well as the status of its people. Boards need to know at least
as much about the condition and utilization of their organization’s human capital as they do about the condition and utilization of its financial and physical assets. Boards need metrics that accurately report on the condition of the organization’s human capital. They also need analytics that show how the management metrics drive corporate performance. They need to use this information when they make strategy decisions, do evaluations of senior managers, and make decisions about organization design, change, and effectiveness.

Without question, executive leadership is very important to the effectiveness of all organizations. The quality of an organization’s CEO, and the quality of those who hold senior executive positions, clearly affects the performance of the organization as well as the motivation and satisfaction of employees. But senior leadership is only one of the major determinants of organizational effectiveness. Many studies, in fact, show that the key determinant of most employee behavior is not the leadership of the CEO or the senior executives but the behavior of an employee’s immediate supervisor or supervisors. These are the individuals who can provide the most important day-to-day motivation and sense of direction to the members of an organization. These are the managers who should possess—and pass along—technical and organizational knowledge when it comes to strategy implementation, change management, and work processes. They are also the ones whose behaviors shape the culture in a much more tangible way than the behavior of the senior executives.

The ultimate role for the HR function is improving the performance of the organization by improving managerial behavior and the quality of decision making about human capital management and organizational design. Members of the HR function cannot and should not manage and lead people throughout the organization. What HR can and should do is improve the leadership and managerial performance of individuals throughout the organization. In addition, they can help shape both strategy and strategy implementation, a very obvious and important value-add in organizations whose most important asset is its human capital.

The financial information systems of most well-run corporations are a good standard against which to test human capital information systems. A human capital information system needs to give the same amount of attention and rigor to measures of human capital costs, performance and condition as the financial information system does to measures physical assets. The information system needs to look at how an organization is performing in critical areas where human capital is a key determinant of performance effectiveness, and report on its condition. It cannot just report the traditional financial numbers, because they are often misleading in organizations that are human-capital intensive. Measures are needed that report on the productivity, condition, and value of talent and how effectively it is being utilized.
Human capital management and firm performance

HCM improves organization performance. A company with more HC has better prepared personnel and consequently it possibly has a better working climate (Boselie et al., 2005) making easy to integrate human and cultural issues. By utilizing employees’ formal education and training, job-based knowledge, and relevant work experience, organizations can conceptualize various contractual needs, efficiently execute and supply the transferred processes, act upon and learn from real-time feedback, and devise new and improved ways of doing business over time. Again the results indicate that this training should aim to integrate the company’s internal resources to provide specific expertise to manage them properly. All these can result in enhancing quality of delivered services and rent generation over time (Budhwar et al., 2006).

KSAs arising from education and experience, and embedded within human actors allow precise comprehension of various organizational functions and subsequent efficient execution of those functions within stipulated time-frames (Lahiri et al., 2012). HC is positively associated with reinforcement of organizational culture, strategic vision, obtaining employee potential and flexible design (Lopez-Cabrales et al., 2006), aspect integrated in internal intellectual capital management.

Strategic managers with tacit knowledge of employee skills and interests can more precisely assess the likelihood of success among multiple avenues of R&D investments and thus dedicate resources to high-margin projects in which the organization is more likely to achieve sustainable competitive advantage.

In other words, crucial investments can be better managed when strategic managers possess organization-specific knowledge of resources and dynamic capabilities, i.e., greater level of management experience can positively moderate the relationship between R&D deployments and value creation (Kor & Mahoney, 2005). HC need to be organized in processes to obtain better performance. Organizational capabilities are necessary to constitute core competencies, which can improve organization performance. HC organized through core competences affects performance. HC is a resource, thus it is difficult that HC directly improves performance.

HC leads to higher performance only if it is applied and successfully transferred to the specific tasks that need to be performed (Unger et al., 2011). These tasks are performed using tools that the company provides to implement them.
CONCLUSION

In today's knowledge-based economy greater emphasis is adverted to human capital. To survive in the dynamic environment and to achieve the competitive advantage; human capital is of immense priority thus has become very important. Organizations are much concerned with the human capital because they think they can only achieve the competitive advantage with the effective utilization of its human resource. Because of the fact that it is only the workforce of an organization that exclusively and entirely can make it different from its competitors and also it is hard for the competitors to duplicate the same workforce at their respective ends. Now-a-days the organizations are struggling to improve the performance of employees by effectively implementing their human resource practices. Human capital will lead the organizations towards better decision making, extensively effective communication within the organization and generate creative and innovative ideas. In order to formulate appropriate competitive advantage through employees, it is first necessary to analyze the firm's competitive strategy or business strategy and organizational human resource practices. The organization should create a
complete model of HRM and employment relationship; also it should support long-term thinking, building “core competencies” and also develop “sensing” capabilities. Human resource management should be thought as a strategic activity and that is carried out consistently with the overall business/corporate strategy. Human capital plays a critical role in the creation and sustaining of competitive advantage. Building human capital is not sole responsibility of human resource department. Creation of positive environment lies in organizational perspective for innovation and creativity. Everything assumes to be same but distinctive human capital becomes a competitive advantage requires sanction from top management.

WAY FORWARD
It is hoped that the paper will contribute to opening the conversation, in the academic literature on the definitions and contours of the HC concept and will help advance HC theory building within the HRM discipline. This study though makes important and valid contributions to theory and corporate setting but has left some of areas unexplored. The study only relates and predicts performance on the basis of HCM. Future researchers may investigate as to which indicator leads to higher performance and why? Future research could be investigation to determine the role of organizational leaders and the provision of organizational career management in service and manufacturing organizations. Research in that area could further help to position human capital development in the knowledge economy. The second area of future research could be to determine the implications to human resource management when organizational leadership was aware of the benefits of nurturing tacit knowledge within their organization. The third area concerns the use of employee educational level at the point of employment and the nurturing of tacit knowledge within the organization. The fourth area could be a longitudinal study to provide data on the relationship between career management, leadership, and organization competitiveness in different sectors. Future research can also be done to identify the rate of return from human capital investment, quantitative difference among firms investing in human capital and those who are not doing the same, identifying the sectors where human capital investment will be more feasible.

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