

## Human Capital a Source of Competitive Advantage “Ideas for Strategic Leadership”

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**Abstract:** The human capital is an integral part of any organization. It is believed that if organizations know how its human capital contribute to their success. It can be measured and managed effectively. Developing human capital in the organization is the major challenge for the leaders in formulating competitive strategies. For achieving competitive advantage, the role of human capital is greater than ever before because it is considered to be the wealth success and major source of competitive advantage. This study is an attempt to provide some innovative ideas for the organizational leadership. There are some unique models for acquiring, maintaining and sustaining human capital These models are specifically derived for this study. The purpose of these models is to explain that human are the key source of the competitive advantage.

**Key words:** Human capital, competitive advantage, leadership

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### INTRODUCTION

These days Human Capital is considered most important element of competitive advantage in most organizations. In is just one of the organisation’s intangible assets; it is basically all of the competencies of the people within an organization. These competencies are various skills, education, and experience, potential and capacity. It is believed that if a company know how its human capital contributes to their success, it than can be measured and managed effectively. Developing human capital in the organisation is the major challenge for the leaders for formulating future competitive strategies. “Dynamic and complex competitive landscape has created considerable uncertainty for firms, however conditions of uncertainty also present opportunities” (Hitt *et al* 1998). “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) he 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). “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. Therefore, the crucial differentiating factor between companies can be how human resources are developed and nurtured in particular organisation” (Yazdani 2008).The human capital can become key source of competitive advantage, if it has worth, continue to be hard to emulate and is exceptional. “Human capital has long been argued as a critical resource in most companies and recent research suggest that human capital attributes like, education, experience and skills and the effect of leadership affect the firms performance” (Hitt *et al* 2001). “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).

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 organisation. “To create workforce

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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).

***Objectives of the Study:***

- To determine that the peoples are the core resource of value creation.
- To understand the best possible technique for acquiring superior human capital.
- To understand the application of strategic analysis techniques on human capital.

***Significance of the Study:***

Human capital have become critical for the competitiveness, the organisations have witnessed dramatic and revolutionary changes in the human work force. Moreover the role of strategic leader have also transformed accordingly. The companies have evolved into warriors and trying to beat each other at all business sphere. In the highly competitive environment the utilization of organisational resources is considered very decisive, the organisations with exceptional internal and external resources gain competitive advantage over the competitors. In the light of RBV the human factor has become vital for getting competitive advantage. (Bernardin & Russell 1998) argued that a company which seeks to achieve competitive advantage must align its business strategies with HR strategies. The strategic leadership of the organisations has never focused so much before on the development and management of human capital, because they have to develop and manage the human capital superior than the competitors to gain competitive advantage. The strategic leadership is focusing on the human capital’s effectiveness, value, output, trek record and operational performance.

This paper focus to delineate the significance of human capital in organisation’s performance and to describe some of the models for strategic leadership of the organisation. These models are specifically devised for this paper, the purpose of these models is to explain that the human are the key source of competitive advantage, how these models can be applied by the emerging companies and restructuring companies, to use the models for innovativeness and exploitation of best human resource, and to define the situational usage of these models by the leadership of the organisation for achieving competitive advantage. This work is completely original and based on the conceptual understanding of the author. In this work various systems and techniques are devised and different strategic analysis techniques are also formulated for the effective application human capital. This work may help business leaders to better understand the importance of the human capital in strategic planning and its application for achieving competitive advantage.

***Literature Review:***

Leadership of the firm is supposed to prepare strategic plan and policies regarding the future of the firm. Human resource is suppose to be the most important fragment of the any organization and leaders are required to focus this area of the firm closely because this section can help organization create sustainable competitive advantage. (Fusilier & Mayes 2003, Goldstein 1992, Kim & Yukl 1995, Yukl 2003) “Suggested that the role of leadership should be supportive; they take more interest in recognizing the efforts of human resources”. All the scholars and researchers on human resources are in accord that the leaders should make continuous efforts to organize development programs for improving the skills and capabilities. (Hemphil & Coons 1957) “Explains that leadership is the behavior of individual directing the activities of group towards shared goals. The leader’s role in satisfying the subordinates through unconventional leadership.(Bennis & Nanus 1985, Zalenik 1977) “Explain that the leadership and management are qualitatively different and mutually exclusive”. Other researchers like (Mintzberg 1983, Kotter 1988, Hickman 1990 Bass 1990, Rost 1991) “View leading and managing a distinct process, but they do not assume that leaders and managers are different type of peoples”. The relationship of leadership with the subordinates and particularly with the lower employee is considered very important (Fleshman 1953, Stogdill 1974, Bowers & Seashore 1966, House & Mitchell 1974). “Effective strategic leaders concentrate on promoting the ability to change throughout the firm’s human capital rather than focusing on making certain that a particular change is made at a point of time. Thus, the most dimension of successful strategic leadership is providing the direction, influence, facilitation and empowerment such that group members realize their potential. When they do so, it creates value for the firm”(Bennis 1997). In the words of Fiorina, “the leadership is not about controlling decision making...it is about enablement and empowerment leadership is not about hierarchy or status...it is about influence and mastering change it is about

challenging mind and capture hearts leadership is about empowering others to reach their full potential” (Carly Fiorina 2000). These remarks clearly explain that the management of human capital is the leading job of leadership for creating competitive advantage.

The human factor in the strategies of organisation has long been ignored, in the recent times it has gained importance and the leadership of the organisation began to realize that the human factor is critical in the creating and sustaining the competitive advantage. Many studies suggest that the human capital should be considered in the formulation level of the organizational strategy. (Peck 1994, Scarpello 1994, Schuler *et al* 1993) describe the need to convert the human resources of an organisation into a competitive advantage implies that human factor should be equal partner in both formulation and implementation of organisation’s competitive strategy. According to (Stone 1998) whenever an organisation formulates its strategy, it requires identification, analysis and balancing of its internal strength and weaknesses and external threats and opportunities. This interpretation is about the overall strategy of organisation but many researcher who support RBV are agree that much attention should be given to internal resources and particularly human capital. (Greer 1995) argue that human factor serve as driving force in strategic formulation, the organisation need to built their strategies on human based capabilities for the competitive advantage. (Sharma & Khanedekar 2006) describe the vitality of human factor in environment scanning and providing information about the internal strength and weaknesses. Human capital are an important source of competitive advantage, it can augment the organisation’s competitive advantage through cost leadership and differentiation. (Porter 1980) believe in focusing on the innovation, quality enhancement and cost reduction in the human capital to gain competitive advantage. (Terpstra & Rozell 1993) found that organisation with human resources practices and performance had higher levels of annual profits, growth and overall performance than those with less sound practices. (Pfeffer 1994) identified 16 human resources practices that, in his opinion, can enhance an organisation’s competitive advantage. (Richard & Johnson 2001) “In a study suggested that strategic effectiveness significantly reduces employee turnover and increase overall market performance. They also recommended that the strategic HR effectiveness affected both productivity and return on equity”.

Following are some standards for the strategic leadership of an organisation regarding the human capital for achieving competitive advantage.

1. Determine human capital strategic vision
2. Scrutinize strengths and weaknesses of human capital
3. Identify key performance factors/indicators
4. Prepare learning and development strategies
5. Involve all management levels and workforce in formulating strategies
6. Evaluate outcome of human capital strategies
7. Perform gap analysis on actual and expected performance

The performance of human capital is mostly influenced by the ability of the strategic leadership in formulating and implementing the human capital policies. The leadership that generates, vision, motivates, inspire and fascinate peoples they transform them to achieve long term objective. The leadership of the organisation should be able to create, Unity, pride and ownership in the people, so that they may be able to give maximum performance. Human capital, if managed properly, can create value for the firm in the shape of increased revenue, improved customer satisfaction, enhance quality of the product and services, increase productivity and reduce cost. This statement suggests that the human factor can increase the value of the firm and value produce competitive advantage.

It is necessary for the strategic leadership to obtain knowledge about the situation of the human capital in or out of the organisation; this would help them to make successful and competitive decisions regarding hiring, development and retaining the human capital. The leaders may conduct SWOT analysis for the determination and assessment of the human capital. The analysis of human capital policies and practices should be scrutinized regularly for the any modification to match the competitive environment. The changes in the procedure and application of human capital policies should be evaluated to measure their effect on the performance of the organisation. The strategic options regarding the human capital can be planed considering the above mentioned steps

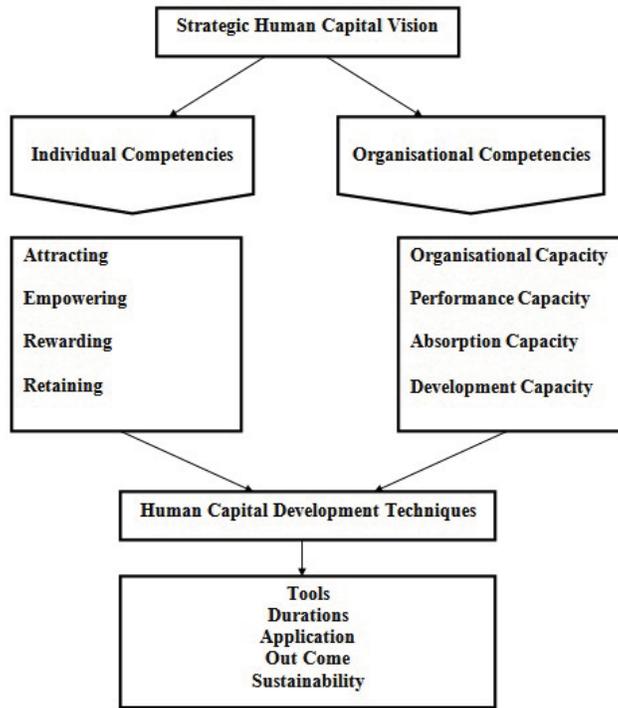


Fig. 1: Human Capital Strategy Model



Fig. 2: Human Capital Strategic Fit Analysis Model

**SWOT Analysis of Human Capital:**

**Strengths:**

- Well qualified workforce, seeking opportunities for growth and development.
- The Workers are satisfied from the job.
- Employee feels emancipation of freedom.
- The will of doing the job properly.
- A diverse workforce.
- Organizations are willing to invest in training and development and appear to do so. Organisations show a willingness to develop and promote their workforce indicating that they realize the importance of investing in their workforce.
- Significant investment in learning technology, health and safety and quality.

**Weaknesses:**

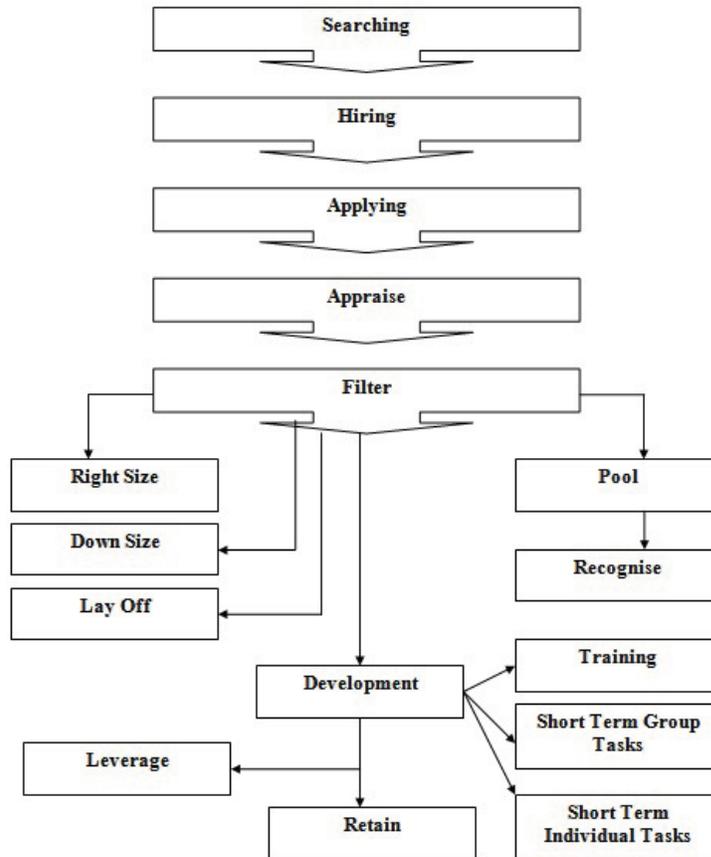
- Lack Strategic Focus.
- The managers have difficulty defining/articulating the profession.
- Unusual human capital shedding.
- Nepotism.
- Inappropriate selection process.
- Underestimating the capability/Capacity of human capital.
- Lack of specialised educational/training institutions.
- Lack of appropriate recognition/reward format.
- Lack of coordination among stakeholders regarding human capital.
- Unavailability of required information about the organisation for the job seekers.
- Sluggish change management regarding human capital.
- Inability to realize, whether employees possess technically adaptable skills.

**Opportunities:**

- Emerging Best Practices
- Emerging specialist jobs and support roles in training and human Capital.
- International talent sourcing.
- Use of cooperation programs.
- Career awareness campaigns at the various levels.
- Strategic relevance and alignment of human capital.
- Out sourcing for strengthening human capital.
- Increased regulations and security requirements leading to a need for more specialist human capital.
- Development of specialised institutions for the supply of well trained human capital.
- Increased university-industry relationship and alignment.
- Development and designing of professional Curriculum.
- Induction of female human capital to utilize untapped workforce.

**Threats:**

- Fragmentation, the human capital is a collection of occupations, ranging from non-skilled to professional, and covers virtually all industries.
- There is a slow pace of adoption of technology. This will impact organizations ability to compete.
- The cost of human capital is growing that will hamper competitiveness.
- The risk of losing the jobs to offshore locations.
- There is an emerging presence of global service providers. This poses an emerging competitive threat for organisations.
- Organizations within the industry are competing amongst themselves for experienced human capital, not focused on generating new talent pool.
- Knowledge is strategically key for companies operating and growing across international markets. Without knowledge, strategic growth would be curtailed.
- Internal development of human capital talent is not providing enough qualified peoples, which creates an urgent need to attract young qualified peoples.
- Lack of Talent Management Strategies
- There is limited succession planning underway to replace talent loss as result of retirement or transfer.
- There is a shortage of qualified instructors available to teach in training institutes



**Fig. 3:** Human Capital Development Chain Model

***Human Capital Development Chain Model:***

This model explains the human capital development chain, which starts from the searching and ends at retaining. The models describe few modifications in the development of human capital, it starts from the searching. This activity of searching suitable human capital has become very critical in recent time, because getting human capital of your choice is complex and hectic due to the ubiquitous degree awarding and training institutes. The quality of the qualified human capital has decline because of these institutes. The next step is the hiring of the human capital through various aptitude and psychological tests. These tests should be conducted to judge the mental capabilities of the person to handle the job in highly competitive environment. In the subsequent step the placement of the human capital on the proper job is carried out. The performance of the human capital is appraised through various analyses and this step should be integrated with the EPPM test so that the performance of the human capital can be assessed properly. The results of the performance analysis help leadership to screen the human capital, on his stage the leadership may decide which employee to retain for long time period, this step also determine that which person is valuable and can be used to create sustainable advantage. Following two steps are very critical for the strategic leadership because most of the organisation jump directly from screening to development which is not wise particularly for those organisations which has large number of employees. In order to retain valuable employee the leadership needs to create a pool of screened human capital rather than dividing them in grades. The grading might create hostility and demoralisation in the human capital, each employee in this pool should be adequately and equally rewarded and recognised. Subsequently, these employees should be developed through various trainings to make them inimitable for the competitors. The developed employees can be leveraged to create competitive advantage.

**Fig. 3: Employee Performance Profile Matrix**

Critical Performance Factors	Weights	Employee	Employee 2	Employee 3	Employee 4	Employee 5
Commitment	5					
Adaptability	4					
Involvement	4					
Learning	4					
Harmony	5					
Satisfaction	5					

**EPPM.** (Employee Performance Profile Matrix)

The matrix is revised form of CPM (Competitors Profile Matrix) and purpose built specifically for the analysis of the human capital. The critical performance indicators are selected on the basis of human capital performance requirement. The first three indicators are concerned with internal aptitude of the human capital and the remaining three are concerned with the environment of the organisation. The scores in this matrix are completely subjective and depend on the aspiration of the strategic leaders. This matrix should be prepared every three months to monitor the performance of the employee. This technique exposes the exceptional employees of the organisation who can be considered as the human capital. This human capital is applied for creating value for the organisation. This technique particularly help strategic leaders to select the human capital which may create competitive advantage for the organisation.

**Discussion and Conclusion:**

In this paper the main research aim is to delineate the significance of human capital in organisation's performance. The technology, globalization and increased competition among the organisations have changed the traditional forms of competitive advantages. Leveraging differentiation through alliances, cost advantages, availability of raw materials and diversification may no longer sustain a true competitive advantage. Through this study some of the models for strategic leadership of the organisation are described. These models are specifically devised for this paper; the purpose of these models is to explain that the human are the key source of competitive advantage.

However, these models can be applied by the emerging companies and restructuring companies, these models can be used for innovativeness and exploitation of best human capital. The models and performance measuring technique are completely conceptual, which may guide the leadership of the organisation to utilize the human capital efficiently and effectively for creating and sustaining competitive advantage. The first step should involve identifying organizational goals and ensuring that there are clear links between organizational, departmental and individual goals. The next step is to analyze existing data to ensure it is clean and accurate. The third and final step is to assess your options in terms of launching the program.

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