HUMAN CAPITAL IMPACT ON THE ENTERPRISE COMPETITIVENESS

Ilona Dubra  
University of Latvia,  
Tel. +37126407972, e-mail: ilona.dubra@inbox.lv

The present day presents a highly turbulent business environment as well as it’s obvious that firms’ competitive advantages are quite temporary. It seems to be that top managers do not have all the answers to the rapidly changing and challenging situations that were seen by their firms’. That is the fact why organizations should build its own core resources with the purpose of achievement of advanced competitiveness of the firm. The resources which include the employee’s individual and collective learning, knowledge, skills and expertise, creativity and innovation will lead to the firm’s human capital accumulation and to the customer – valued outcomes as well. The basis of the firm’s competitive effectiveness lies in its ability to develop, provide and integrate the collective and individual special knowledge with the aim of generating specific skills, capabilities and innovation. The paper reveals the definitions of human capital concept as well as stress out the importance of the human capital effect on the firm competitive performance. The conclusions reflect not only the main ideas discussed in the paper, but also the goal of the paper. The paper object – the influence of human capital on the enterprise competitiveness. The paper goal – to analyze the importance of human capital effect on enterprise competitive performance.

Key words: human capital, firm competitiveness, customer – valued performance.

The linkage of enterprise competitiveness and employees performance

Traditionally, knowledge management literature points out that human capital is a key intangible form of value creation. Human capital definition is usually related to competences of employees, which includes the knowledge, skills, experiences and abilities of people.1 K. Wigg defined human capital as “a part of intellectual capital. The firm’s human capital consists of the knowledge, understanding, skills, experience and relationships of its employees. Human capital is the property of employees and is only leased or rented to the enterprise.”2 U. Johanson stated that “human capital is often defined as a part of intellectual capital or intangible resources of firms. Skandia, for instance, divided intellectual capital into human capital and all other intangible values, that latter were divided into structural capital, composed of customer capital and organizational capital.”3 G. Ahonen stressed out that “human capital is the only generative intangible and therefore, the central element of intellectual capital. Some human capital can be unique to the individual, whereas other human capital can be generic. Examples include innovation capacity, creativity, know-how and previous experience, teamwork capacity, employee flexibility, tolerance for ambiguity, motivation, satisfaction, learning capacity, loyalty and formal training and education.”4

In fact, knowledge is learned, acquired, developed and used by people who work in particular enterprise. Actually, the basis of the firm’s competitive effectiveness lies in its ability to develop, provide and integrate the collective and individual special knowledge with the aim of generating specific skills, capabilities and innovation, so in consequence – customer – valued performance.5

The ability of the enterprises to compete in highly competitive markets depends on their employee’s accumulation of knowledge and capabilities. There is no doubt that employee should identify new opportunities, think and act innovatively, explore and discover new path for growth, develop required capabilities and use them constantly. In other words employee is needed to face today’s challenges and prepare for an uncertain future. All above mentioned tasks and activities are knowledge – intensive, so that’s why it’s quite vital to admit that the employees of the enterprises are the creators, owners and users of this kind of knowledge which is the most valuable resource of the enterprise. The linkage of knowledge (including learning, development, sharing and creative use) with employees as the most valuable resource of the enterprise is depicted as follows (figure 1.):

Fig. 1. People as the ultimate resource of an organization

As a rule resources would decline or diminish over the time if they were not upgraded and developed on the regular basis. Business capacity to produce extra customer – valued outcomes in a regular manner depends on instant learning and increasing application of knowledge to work by its people. Moreover, it’s obvious that employee’s learning and knowledge in this context must also include an understanding of their company’s competitive business environment, because, in fact, the behaviours, that define learning and the behaviours that define being productive are one and the same.

C. K. Prahalad admitted that enterprise competitive advantage more and more depends on “people – embodied know-how”. As the matter of fact human capital rather than physical or financial capital, distinguishes the leaders in the market. Moreover, D. Ulrich pointed out that employee knowledge, skills and abilities form one of the most significant recourses which an enterprise can take advantage of. The strategic management of human capital now has greater importance than ever.
Following the work of S. A. Snell et al, D. Ulrich and D. Lake, the author of the paper will analyze the strategic potential of firm’s human capital by comparing two dimensions: value and uniqueness.\(^{10}\)

The resource-based view of the firm reveals that resources are valuable when they allow improving effectiveness, capitalizing on opportunities and neutralizing threats. In this context, firm’s human capital can add value if it contributes to lower costs, provide increased service or product features to customers. However, D. J. Collis and C.A. Montgomery announced that the importance of human capital depends on the degree to which it contributes to the creation of a competitive differentiation. That’s why as the uniqueness nature of human capital increases, firms have incentives to invest resources into its management with the aim of reducing risks and capitalize on its productive potential.\(^{11}\)

The figure 2 shows the classification of the different forms of human capital that may exist in the company as well it is quite useful to study this framework and analyze how these forms of human capital should be managed in order to maximize their contribution to the company.\(^{12}\)

![Fig. 2. Classification of the different forms of enterprise human capital](image)

**Idiosyncratic human capital** (low value, high uniqueness). S.A. Snell et al proposed to link it to the others forms of human capital as well as with relational and organizational capital with the purpose to increase the performance of this form of human capital. In addition to above mentioned D. P. Lepak and S.A. Sell stated that organizations should develop human resource systems based on collaboration to support development, for example, of lateral relations, exchange programs, group-based rewards, team building and rotation.\(^{13}\)

**Ancillary human capital** (low value, low uniqueness). Employee knowledge is neither useful for creating customer value nor is it specific for the company. Accordingly to Snell et al the best way to managing ancillary human capital is to disinvest in employees. In this sense unskilled or semi-skilled employees, that offer no source of competitive advantage, should be replaced with automate technology.\(^{14}\)

**Core human capital** (high value, high uniqueness). Companies should develop and maximize its value creating potential and differentiating characteristics. According to D.M. Rousseau and A.S. Tsui, firms may implement commitment-based human resource systems and developmental performance appraisals may be used to facilitate the development of firm-specific knowledge and competitiveness.\(^{15}\)

**Compulsory human capital** (high value, low uniqueness). This kind of human capital is not specific to any company and employees are free, within certain limits, to sell their talents wherever they can achieve the higher return.\(^{16}\) Human capital theory suggests that organizations would not be likely to invest in this kind of human capital. Organization should organize the selective staffing process to identify potential employees with the appropriate skills to generate immediate productivity.


Missing the focus of human capital

The concept of human capital goes beyond the conventional concept of human resources, but it is clear that the focus of the human capital is sharper, broader and deeper. Human capital focus lies on ensuring and sustaining the competitiveness of the enterprise, while the focus of the human resources is limited to the development of the employee’s working skills. The concept of the human capital, on the other hand, extends the further cultivation of employee’s capabilities, they change their course (in case it was wrong) to the right direction, learn from the past and present errors so to avoid them, understand fully the nature, purpose, and circumstances of the enterprise performance and finally employee’s are skillful in monitoring and interpreting the signals indicating enterprise course and direction.17

That’s why it’s quite vital to observe some dramatic cases where even high level of human resource management and development practices lead to the serious strategic and cognitive failures occurred by missing the focus of human capital:

- Ford, General Motors and Chrysler failed to see the increasing threat of the Japanese competitors who, as a result, had captured a large market share;
- Powerful retail enterprise of Sears failed to see the increasing threat of Wal-Mart and failed to see new business design and new logic of competition;
- IBM was very late in entering in the PC market, as a result, IBM failed to generate new wealth from the PC Software market;
- Encyclopaedia Britannica underestimate the implications of printing its products on the CD-ROM;
- Xerox missed out the PC revolution even taking into account Xerox investment in their pioneering Altos machine, as a result, Apple capitalized on the Xerox’s R&D;
- According to the IBM’s management, the demand for photocopiers was insufficient to justify investment. Later, IBM entered the photocopier market, but had to withdraw after sustained losses in the face of Xerox’s strong position;
- Compaq missed the opportunity of Just-in-Time assembly of PCs, as a result, it was done by Dell with outstanding success.18

All above mentioned examples reflect the importance of human capital effect on the enterprise competitive performance. It’s clear that human capital is needed to be constantly developed with the purpose to maximize the quality of the company’s products and services by creating customer-valued outcomes.

Conclusion

Human capital is one of the most important resources of the company in the struggle for sustaining the competitive organizational performance. The ability of the enterprises to compete in highly competitive markets depends on their employee’s accumulation of knowledge and capabilities. People are the ultimate resource of an organization that’s why there is no doubt that the ability of the enterprises to compete in highly competitive markets, by creating value-added products and services, depends on their employee’s accumulation of knowledge and capabilities, in other words depends on human capital effectiveness.

References
