

The logo of Galgotias University is a circular emblem with three curved, overlapping bands in shades of yellow, blue, and red, set against a light pink background.

HR Metrics & Analytics

MSB21T2001

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Topics to be discussed

- TRANSITION OF HUMAN RESOURCE MANAGEMENT TO HUMAN CAPITAL
- MANagementsustainable competitive advantage through human capital

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RECAP: SESSION 5

- **HRM AND STRATEGY REINFORCEMENT OF HR STRATEGY FACTORS WITH HR ANALYTICS**
- **HUMAN RESOURCE MANAGEMENT AS A PROCESS**

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TRANSITION OF HUMAN RESOURCE MANAGEMENT TO HUMAN CAPITAL MANAGEMENT

- The present trend in organizations is to consider people as HC because they are the important assets for the growth and sustenance of an organization.
- Economist Adam Smith (1977[1776]) for the first time used the term HC primarily to legitimize the payment of higher wages to those who invest time and put effort to acquire skill.
- It is expected that these workers will contribute more to the organizations in terms of their performance and productivity.
- In management, HCM concept was formalized by Becker (1962) and subsequently by Schultz (1982).
- Schultz research was focused on individual household's decisions on investment in HC, more in the form of financing the education for the children. Becker could relate such households' decisions with the firms' investment decisions in knowledge creation to develop the people as capital to the organization.

TRANSITION OF HUMAN RESOURCE MANAGEMENT TO HUMAN CAPITAL MANAGEMENT

- Since then, we find many scholarly pieces of work on HC, emphasizing the need for its continuous development for sustainable competitive advantages of the organization.
- HC is differentiated from other assets which we use for the accomplishment of business goals of the organizations.
- Organizations gain competitive strength leveraging aggregate knowledge, skill, positive attitude and abilities of its people.
- Hence, investment in people in the form of training and development, improvement of the quality of work-life, support of work-life balance, general health improvement among others, improve the asset value of people.

TRANSITION OF HUMAN RESOURCE MANAGEMENT TO HUMAN CAPITAL MANAGEMENT

- The renewed focus on human resources, naming it as HC, is a major transition from control to commitment approach (Bhattacharyya, 2012), as asset precepts legitimize investment on people for incremental benefits in terms of performance and productivity, which can strengthen the organizations.
- Commitment orientation to HRM requires HR managers to be the facilitators to develop employees to establish link between individual and organizational goals.
- In achieving the business results, in organizations, issues related to people often supersede technologies, strategies and other operational excellence.
- Issues related to people receive attention only when organizations fail in achieving the positive results of their efforts.

TRANSITION OF HUMAN RESOURCE MANAGEMENT TO HUMAN CAPITAL MANAGEMENT

- HCM is also interchangeably used as the talent management approach, as HCM process focuses on building the talent of people.
- We carefully craft the word people replacing our previous thought process, i.e., human resources, as the resource concept is constrained by our mindset of exploiting human resources like any other resources for one-way gain of the organizations, and we also feel constrained to consider people as an expense item.
- Considering people as assets, we buy the idea of investment on people to build their capabilities, which maximizes their contribution to organizations.

TRANSITION OF HUMAN RESOURCE MANAGEMENT TO HUMAN CAPITAL MANAGEMENT

- However, we have also some criticism on the HCM concept, as it equalizes with other resources and can be owned, bought, sold or traded.
- The approach is more like considering people as an inventory which is not expandable, rather renewable for improved use in future, when investments are made.
- Our criticism on HCM further extends to the dilution of the social enterprise model of an organization, which focuses on achieving a common goal.
- Considering people as capital at the disposal of the organization subjugates them as inert disposable assets, when they fail to perform.

TRANSITION OF HUMAN RESOURCE MANAGEMENT TO HUMAN CAPITAL MANAGEMENT

- HCM reduces performance management systems to a more stocktaking process for HC to estimate whose asset values appreciate or depreciate, and accordingly take decisions on investment or divestment.
- In this process, performance management as a tool for feedback and collaboration loses its importance.
- Also, the criticism on HCM centres on the commercialization of HR function, as it is metrics driven, and like other operating and financial reviews makes review of capital value of people in financial terms.
- Despite such criticism, the concept of HCM is gradually replacing HRM, as evident from various organizational practices.
- Organizations today are using strategic HCM approach, aligning people with the business and strategies for consolidating their gain (Bhattacharyya, 2013).

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SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

- The term sustainable competitive advantage is well defined by Hofer and Schendel (1978) as the unique positioning of the organization that enables them to outperform in relation to their competitors.
- It is the value-creating capabilities of the organization that cannot be replicated by others. Lawson (2002) argued that it can be created leveraging knowledge, know-how, experience, innovation and unique use of information.
- Similar studies by Barney (1991) earlier focused on its essence of inimitability.
- Barney further contended that sustainable competitive advantage can only be built on strategies leveraging the internal strengths of the organizations.
- Internal strengths of the organizations can only be built on the possession of distinctly valuable resources over its competitors.

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

- Reviewing the publications of scholarly researches, it is evident that till the 1990s, organizations worldwide predominantly viewed the external environmental forces as their basis for strategy framing for their competitive positioning in the leveraging their financial and technological resources.
- Human resources was considered as a tool to supplement such strategies to extend support in the process of value creation (Porter, 1998).
- The resource-based view shifted our focus from external to the internal context for building sustainable competitive advantages
- Proponents of this view argued that organizations should focus on acquiring, deploying, developing and retaining their resources, rather than the competitive positioning in the market (Colbert, 2004).
- Organizational resources are assets, such as human resources, intellectual capital, capital equipment, that, however, do not have the potential of establishing a competitive advantage in isolation

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

- Accordingly, resources have to be utilized in bundles, or combinations, which then lead to the development of organizational capabilities that can be viewed as a source of competitive advantage.
- Establishment and sustainability of a competitive advantage rests on the organization's ability to determine, develop and nurture core competences, which they define as collective learning in an organization, while creation of competitive advantage necessitates organizational competencies, i.e., their resources and capabilities, which strengthen their strategies to enhance values.
- Competitive advantage and sustained competitive advantage, arguing that firm's strategy on competitive advantage does not consider present and future competitors, while sustained competitive advantage considers this, thereby restricting the competitors' present or future to imitate.

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

- While considering people as the core driver of sustainable competitive advantage for any organization, also important are organizational resources. classification of organizational resources into tangible (financial and physical), intangible (culture, reputation and technology) and human recognized the importance of all these resource constructs for organizational success.
- However, human resources have been considered more crucial of attaining the success in organizations recognized the importance of human resources to bring changes in organizations to survive in competition.
- The distinctive qualities of human resources, e.g., people's competency (aggregation of knowledge, abilities, skills, attitudes and experience), help in gaining sustainable competitive advantages for the organization. These distinctive qualities being the differentiators for firm's sustainable competitive advantage legitimize the concept of HC in place of human resources.
- This extension of thoughts to HC later prompted many scholars to rename HRM to HCM. Dessler's defines HC as knowledge, education, training, skills and expertise corroborates with this distinctive approach to human resources.

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

The difference in these two approaches, i.e., human resources and HC, rests on the difference in the approaches of cost minimization (in the case of HRM) and investment in HC (Kane et al., 1999).

Huselid et al. (1997) maintain that to achieve competitive advantage through HC, organizations need to be in possession of HC that is value adding, unique, inimitable and non-substitutable, while to meet these conditions a set of HRM practices is required. Batt (2002) distinguishes three dimensions of HRM systems that lead to the acquisition and retention of the relevant HC:

First, the recruitment of people with respective skills and investment in their initial training; second, work design that fosters discretionary and continuous learning through cooperation with coworkers and, third, performance-based incentives.

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

- Thus, mere possession of human resources does not lead to the establishment and sustainability of competitive advantage; it requires building and developing human resources into core competence or organizational capability.
- Hence, high-quality HC needs to be supported by effective HRM to add to the competitive value of an organization.
- Mueller (1996) emphasized the relevant role of tacit knowledge, thus proposing that explicitly defined and formalized HRM practices do not form basis for the development and sustainability of competitive advantage.
- Boxall (1999) proposed that a distinction should be made between HC advantage and human or organizational process advantage, where the first embraces hiring and retaining high-quality people with tacit knowledge and the latter refers to processes.

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

- Each of these two advantages may lead to value creation; however, according to Boxall and Purcell (2008), they work best in combination with each other.
- Besides, the authors maintain that though human resources may be viewed as a source of competitive value, they have to be managed to lead to the establishment of a sustained competitive advantage, which in turn necessitates an HRM system for it, in contrast to single HR policies and practices, to make it inimitable (Boxall & Purcell, 2003).
- Ulrich and Brockbank (2005) build their HR value proposition on the following five elements: knowledge of external environment, meeting needs of external and internal stakeholders, development of HR practices, organizing human resources and effective HR function.
- These criteria point to the significance of both human resources and their effective management, and support the idea that to create value for the organization the two have to work in close combination.

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

Value of HR function is undoubted, it could be further enhanced by assuming a business partner's role in the organization and offering the following three lines of products: administrative services (e.g., hiring, training and so on.), business partner services (e.g., HR system development) and strategic partner services (e.g., strategic differentiation of HR practices).

To acquire a sustainable competitive advantage, an organization has to be superior in all areas of strategic HRM: HC pool (knowledge, skill and ability), employee relationships and behaviour (psychological contract and organizational citizenship) and people management practices (staffing, training, rewards, appraisal, work design, participation, recognition and communication).

Development of sustained competitive advantage is supported by other theories, such as, the knowledge-based view that emphasizes the critical role of unique knowledge ownership; the role behaviour theory that maintains the necessity of different role behaviours for different means of strategy implementation and views HRM as a primary means of behaviour management and the HC theory that assumes that the value of human resources, just as any other type of capital, lies in their ability to contribute to organizational productivity

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

- Stavrou and Brewster pointed out to the following four perspectives that acknowledge the significance of HRM in the establishment of sustained competitive advantage:
- a) organizational learning, i.e., creation of competitive advantage through innovation, change and rapid renewal;
- b) external and internal fit of organizational practices, resources and capabilities;
- c) engagement in change processes, identification of threats and opportunities, and acting as an intermediary between stakeholders and the business and
- d) core competency development and deployment.

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

- Organizations with a strategic HCM approach can successfully compete, survive and grow in the long run.
- Theoretical framework of strategic HCM is embedded in the core concepts of HCM, per se, and how it gradually replaces the established concepts on HRM, especially in the context of organizational practices.

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

Core Concepts	Theoretical Contributions	Relationship with HCM
The economics route	Adam Smith (1777[1776])—Recommended payment of higher wages to workers who invest time and effort to acquire skill.	Laid the foundation of HCM.
The management relation	Becker (1962), Schultz (1982), Vroom (1964), Coff and Kruscynski (2011), Ployhart and Moliterno (2011)—Schultz viewed investment on human capital in terms of households’ decisions on financing education for the children, while Becker relates such households’ decisions with firms’ investment in knowledge creation to develop people as capital to the organization.	Institutionalized HCM in organizations.
The debate on its legitimacy	Porter (1998) and Prahalad and Hamel (1994)—Discarded that people are core part of the organizational value chain and core competencies. People are critical and support the organization.	Acknowledged the criticality of the people but not accepted people as capital to the organization.
The strategic need	Bartlett and Ghoshal (2002), Ulrich & Brockbank (2005) and Ingham (2006), Sturman et al. (2008), Lawler and Boudreau (2012)—Agreed that managing people as capital we make HCM a strategic function of the organization.	Acknowledged the strategic role of HCM.
The knowledge-based view	Price (2007)—Emphasized the critical role of unique knowledge ownership for human capital for sustainable competitive advantage.	Agreed that firms by investing in human capital can own it and leverage it for sustainable competitive advantages.

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

- By now we have observed that strategic HCM practices enhance organizational capabilities to sustain and grow in competition. However, we are still not very clear about the concept from organizational point of view, and we do not observe any commonality or even some degree of agreement on its major drivers.
- HC is embodied in the knowledge of people (Coff, 2002). Traditionally, HC is acquired by the organizations while they hire people with new knowledge and skills (Coff & Kryscynski, 2011).
- However, from here we have shifted our focus on the need for developing HC at the organization level (Ployhart & Moliterno, 2011). Many organizations prefer to invest in specific HC development (Barney, 1991; Nonaka, 1994; Sturman et al., 2008).
- Although organizations benefit from this approach, but to what extent it benefits the individual employees in terms of their future career progression both within and outside the organization, is yet to be empirically tested.

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

- Many critics to the HCM approach, for such propensity of firms to restrict investment in firm-specific areas, are already vocal about the dilution of the social enterprise model.
- The social enterprise model of organizations makes people work together happily to achieve a common goal. In contrast, HCM, as observed by some critics, dilutes the social enterprise model and reduces people to livestock (Wookey, 2012).
- People-centric approach to HCM to maintain the sanctity of social enterprise, integrating it with the essence of 'connection, communication and collaboration'.
- Some of the core drivers of HCM, evident from the literature review and organizational practices are: leadership, employee engagement, knowledge sharing, developing capabilities of people and manpower optimization (both in terms of its utilization and management).

SUSTAINABLE COMPETITIVE ADVANTAGE **THROUGH HUMAN CAPITAL**

Effective leadership for HCM requires transparent top-down communication, inclusiveness of people through introduction of suggestions and feedback, reduced hierarchical barrier and facilitation.

For HCM, employee engagement, among others, requires organizational commitment to acknowledge good performance of people through rewards.

Employees' feel more engaged with the organization when they participate in setting their performance targets, and they can enjoy work-life balancing.

Knowledge sharing requires constant training support, team work culture and mutual information sharing.

This succeeds building capabilities of people as they become more innovative. Capability building, therefore, requires promoting a culture of innovation and continuous training, creating career development opportunities for the employees and scaling up to the quality of a learning organization.

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

- Manpower optimization requires clarity in work processes, congenial working conditions, accountability and a robust performance management system
- In organizational practices, we observe the evidence of HCM drivers that can be construed as core constructs (Lawler, 2009).
- Hence, the effectiveness of any organizational HCM practice can be understood when the organization recruits, manages, trains, retains talent and manages performance, considering people as capital to the organization.
- As HC value has to be assessed time to time, many organizations develop their own HCM analytics and, with computer support, track the movement for appropriate intervention to sustain and increase the HC value.

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

- Many software vendors also provide standard HCM analytics, which organizations adapt to their requirements.
- When organizations align their HCM practices with their mission, goals and objectives, it becomes strategic.
- With a strategic HCM approach, an organization can enhance its performance. This linkage stems from the resource-based view discussed earlier. Evidently, it also has its roots to Vroom's (1964) expectancy theory.
- The generic model of strategic HCM, based on Fitz-enz (2000), therefore, centres on acquisition, maintenance, development and retention.
- Contributing factors to strategic HCM have been identified based on the degree of universality in its approach, especially in the context of organizational practices and the relevant literature support on the same.

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

- **Organizational sustainability**, according to Dyllick and Hockerts (2002), is achieved through meeting the needs of the present and future stakeholders.
- HRM balances such needs through productive internal work relationships, meeting the expectations of employees and the society (Arnold, 2005).
- Ehnert (2009) advocated the practice of sustainable human resources for this purpose, defining it as a process of balancing an organizational goal with human resources with a long-term focus.
- Sustainable OD through motivation and job satisfaction was identified as an important prerequisite (Deal & Jurkins, 1994; Erez & Earley, 1993).
- From HR perspectives, organizational sustainability is achieved when the organization is able to make itself an 'employer of choice'.

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

- Sustainable HR practices encompass training, engagement, employee communications and talent acquisition. Practices, however, vary from organization to organization, depending on their specific needs.
- Organizational sustainability: This is achieved through meeting the needs of the present and future stakeholders. Innovation or sustainable OD essentially requires organizations to be policy driven.
- This among others requires organizations to bring changes in processes, develop and empower human resources, balance the present and the future needs and also meet expectations of different stakeholders.

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

- With HR analytics it is possible for organizations to manage their HRM functions as HCM functions with long-term focus on sustainability and growth.

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The logo of Galgotias University is a stylized 'G' composed of three curved, overlapping bands in shades of red, yellow, and blue. The text 'Thank You' is centered over this logo.

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