SCIREA Journal of Management

http://www.scirea.org/journal/Management

December 20, 2016

Volume 1, Issue1, October 2016

Human Capital as a Strategic Imperative for Organizational Performance: How Relevant is Human Resource Contribution in Today's Digital Economy

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Abstract

Human resource refers to the stock of productive skills and technical knowledge embodied in labor. It is tangible in nature. Many early economic theories refer to it simply as labor, one of the three factors of production, and consider it to be a fungible resource -- homogeneous and easily interchangeable. The goal of human resource management is to help an organization to meet strategic goals by attracting, and maintaining employees and also to manage them effectively. The key word here perhaps is "fit", i.e. a HRM approach seeks to ensure a fit between the management of an organization's employees, and the overall strategic direction of the company. Human capital, instead, refers to the intangible aspect of human resources. It enhances the value of employees by striking a win-win goal for employers and employees. It focuses on the intrinsic value of each employee, where any expenditure on employees is regarded as an investment rather than an expense. The varying talents and motivations of employees are given cognizance so that incentives and working arrangements can be created to enhance each employee's contributions to organizational performance. The main objective of this study is to assess and evaluate how organizations treat and understand the role and contributions of their human resources in this era of digital economy

Keywords: Organization, Production, Human Resource, Organizational behavior

1. Introduction

Since the industrial revolution in the early l8th century, the processes of industrialization were immense with the emphasis on production for the market. This also the beginning of what we called the birth of the capitalism system which focuses on maximizing profit and minimizing cost (Wallerstein, 1980). The relationship between the workers (labour) and the owner (entrepreneur) is on the basis of exploitation where the owner or the employer pressured the workers to work, longer hours with minimal wages, and severe working condition in return for higher profits. Marx, in many of his arguments, argued that capitalism is a historical specific mode of production, where each mode of production contained in general a pair of opposed classes, a class of direct producers and a non-producing class which exploits them (Edwards, 1985) . However, the discussion here is not on Marx theory or on the effect of capitalism but on one of the factors of production which determines the success of modern day organizations. The main objective of this study is to assess and evaluate how organizations treat and understand the role and contributions of their human resources.

2. Literature Review

In any organization the role of workers is very important and crucial in determining its success or failure. As one of the factor of production, people or the human capital will compliment and manage the other input which includes financial resources and physical resources to achieve its goals. Too often, managers forget how important the workers factor is to the success of an organization (Robbins, 1978). Many managers have failed to understand this statement because they themselves have taken human resources for granted. However, this phenomenon gradually change when many organizations have began to focus on human resource and consider it as a top priority in their strategic plans. With so competitive current business environment, a company which has successfully maximized its human resources can become the market leader.

In the era of globalization and the concept of privatizations, profit is the only vocabulary; it has been observed that the role of workers is not merely a factor of production but is becoming the tool to justify the means. As a result, without the knowledge of the employee or worker itself, the element of exploitation exist in the day to day process of production however, not in the true sense of Marx interpretations because in return they were paid handsomely. However, Steven Warburg, the founder of Warburg implied that people in organization has been managed and treated like cows in order to attained production targets. He believes this kind of treatment of people is inappropriate especially in ways to manage and to lead them. The reason, people are different from cow laterally speaking where in the present context, workers are expected more from their job (Robbins, 1978). This led workers to fight back rather than been used as economic benefits, what matters is to see the increased efforts being made toward improving their job contents.

No doubt the existence of an organization is to attain goals (Robbins, 1978). An organization without goals has no purpose. This has been the motive for many organizations to initiate profits, and in any corporate objectives or in formulation of strategy to fit the environment; the goals of achieving profits remain the ultimate target. Therefore, when the actual strategy is implemented, the utilization of the resources must be up to the maximum level. In doing so, the management remain the essential elements of maximizing the use of the resources. In today's business world, management is very crucial. By definition, management is the process of working with and through others to achieve organizational objectives in a changing environment (Kreitner,1995). However, there are many incidents where the performance of an organizations is questionable; poor productivity, losses to company, incompetent workers, no commitment, low moral are few of the signs which implied poor management. Organizations can have the capital, the assets and other resources, but if the management fails to lead their workers, the bottom-line is that what they have is a mediocre or under-utilised labour. On the other hand, there are organizations with high productivity and good performance, but the way they treated their workers with power and authority denying their rights and voices has been disapproved by many human resource experts.

Productivity in any type of organization is very important as it measures of economic Health (Kreitner, 2006). For managers, who are the leaders in an organization, organizational productivity is more relevant. Organizational productivity is the ratio of an organization's total output to total input, adjusted for inflation, for a specified time period (Kreitner, 2006). Giving this common goal, manager has the responsibility to ensure that during his/her tenor will give the utmost output at the end of the day. How the manager achieves this objective is secondary. At time, there is a situation where worker has been exploited indirectly by their employer to attain the goals of the organization were visible. For example, extended working hours, meeting deadline, review of targets, appearance of stress among staff, job changing, yearly leave not fully utilized and staff low moral are sign of workers been pressured to give more in their works.

How much a productive worker worths? A lot of indigenous effort has gone into putting a cash value on the production worker (Cook: 1993). Even accountants have tried to do it, but were not successful. Defining productivity is not easy and complex and can poses great problems. The most common indicator especially in the private sector such as banking, insurance or other manufacturing firm will use profit to measure level of productivity. However, this measurement is still subjective as it is not reflective of the overall contribution of every worker. A person as human being is emotional and subjected to a lot of needs and wants and differs in many ways to animal as they are able to think and not being used and abused. As Maslow put it in his hierarchy of needs theory where he pointed out that there are five level of work motivation; basic needs, security needs, social needs, esteem needs, and self-actualization needs (Luthans:1995). Therefore, if a person is being treated as 'cow', milking them non-stop, by end of the day even with the basic needs they have may not motivate them. The outcomes will create a group of workers which have the attitude of working '*nine to five*' without the zest of improving organizational objectives. The freedom or the understanding both physical and emotional needs of the workers has not been recognized by the organizations. In the end, they view their work as meaningless, and perceive themselves as powerless to correct this situation (Robbins: 1978).

Rather than created a 'robot' in a working environment, organization do have the responsibility to develop a more useful, meaningful and competence workers. Therefore, there is a question on how this demanding objective can be achieved. The most common approach as many organizations perceived is to have a good leadership. Organizations, especially those with business objectives recognize the need for leadership as the only way employees ever have the satisfaction of really feeling they are identified with the enterprise for which they work (Collier, 1968). In reality what happened without realizing it that many organization has failed to exploit the usefulness of leadership and tied up with the development of workers and their importance. Business leadership can be democratic in the sense of providing the maximum opportunity for growth to each worker without creating anarchy (Collier, 1968)

Human capital refers to the intangible aspect of human assets. A firm's physical aspect i.e. the look and appearance of the human capital is only relevant at the hiring and selecting phase of the human resource practices. Thereafter, the firm is more concerned with the flexible components of human assets found in the skills, knowledge, and capabilities of the employees to accomplish any given tasks in pursuit of the organizational goals (Edvinsson & Malone, 1997; Wright & McMahon, 1992). The theory of human capital of the traditional economy during the height of the industrial revolution implied that human participation in production processes constituted a form of capital. Much of the theoretical and empirical foundations of studies were focused on the premise that firms gain economic benefits from their investment in people (Sweetland, 1996). Human abilities were categorized under the physical asset of the organization where the concern of the firm is on the productive output of its employees. One initial study of human resources had focused on the management of people broadly grouped under the categories of selection, training, appraisal and rewards (Wright & McMahon, 1992). As such, economic remuneration of employees bore a direct relationship with the level of education and the length of work experience.

However, with focus changing towards the intangible aspects of human resources, strategic human capital practices have evolved to become more purposive and context specific and its development are aligned to support the organization's strategic plans and needs. The multi-dimensional aspects of human capital, which encompass the tangible and intangible aspects, static and dynamic aspects and industry-specific and firm-specific aspects, become the focus of human resource management in an effort to enhance performance. The intangible aspects of human capital include the skills, knowledge, and abilities that employees use to accomplish tasks at hand, and ultimately achieve organizational goals (Edvinsson & Malone, 1997; Youndt & Snell, 1996). While it is important to hire competent individuals from the start, it is this intangible and flexible component of human capital that organizations seek to understand and control through the use of human resource practices.

Barney (1991) advocates the use of firm resources to create sustained competitive advantages by conceptualizing human capital as a source of sustainable competitive advantage. The later work of Barney (1995) reaffirms this combination because the way these two resources are combined is heterogeneous across firms and the combination is socially complex and more likely to be inimitable. This view is supported by Finkelstein and Hambrick(1996) whose work showed the importance of human variables in strategic choice and firm performance. To achieve competitive advantage, a firm now looks to combine competent employees with the flexible components of human resource practices. Competitive advantage based on human capital that incorporates the complex structure and interactions of people is much more difficult to imitate than the competitive advantage derived from physical and financial capital (Teece, 1998).

Basically, the human capital theory as espoused by Becker (1964) is entrenched in the resource-based view of the firm with specific focus on tangible and intangible dimensions of human capital. The concern of firms regarding their tangible human capital is on labour costs relatively to future productivity and seeking return from investing in developing the skills and knowledge of their employees and how to prevent such skills from being transferred to another firm. The intangible dimension, on the other hand, is concerned with the strategic relevance of competencies developed from acquisition and sharing of knowledge. The emphasis is on exploiting employees' knowledge to achieve internally developed core competencies that are valuable, rare, inimitable and non-transferable (Barney, 199, Hamel & Prahalad, 1990).

3. Methodology

In this study most of the input and informations or data are gathered from selected books and journals and it is more of a descriptive research in nature since the objective is to assess and evaluate how organizations treat and value the role and contributions of their human resource. There is no empirical or use of survey to collect data to authenticate the study but from the literature review is indicated that there are cases of deviancy in the management of people for the purpose of productions.

4. Discussion

For many, due to job security and the reward of wealth and with the promised for the best benefits, employees themselves are allowed to be utilised to the fullest e.g. working long hours and poor working conditions to the extent of losing their self-esteem (Luthan, 2007). Of course this phenomenon is not to be blamed solely on the workers which also include the middle management. More often than not the types of leadership which has targeted to achieve, practice the so called "be strong" styles of management (Sayles & Strauss: 1968). In the banking industry, it is common practices for the management to set goals in order to increase profit for their chief executives or the shareholders. The constant pressures exert on the executives to insure that these goals are met. Some companies even deliberately set their goals very high. As one top management quote (Sayles & Strauss: 1968).

" *My philosophy is always, give a man more than he can finish. That way you can be sure you are getting the most out of him*

This proved that the management will use whatever opportunity to squeeze their employees to the limit to achieve goals which being sets by them like using 'cows' to work the fields all days in order to produce more harvests. In this competitive world any firms will use any means and all the management expertise to achieve their goals. The used of technological innovations, adopting various model of management invented by renowned management gurus, spending on training, cost conscientiousness various tools used by modern organization to increased profits and this trend motives are widely practice. Apart from that, in understanding organizational behaviour, the element of power and politic also contributed to people being 'squeezed' of their energy to maximize production. With power, there is ability of one person in an organization to influence other people to bring about desired outcomes (Demings,1986).

In meeting certain deadline, managers do not hesitate to exercise their power to achieve their goal. Such situation creates what often called management by fear, a fear of questioning the boss and at the same time to play office politics or keep side with the boss (Demings, 1986). Such political motives which are not sanctioned by the organization are very dangerous, because it leads to use power and a resource to obtain one's preferred outcomes (Drunmond, 1993). What is amazing about this trend and in today's world of achieving competitive advantage, companies or institutions will find whatever ways and means to achieve organizational goals to the extend causes them to deviate from some of the management ethics or principles.

5. Commentary and Future Outlook

However, in today business environment where productivity and maximizing profit is the bottom line, the effective utilization of resources is very important: Hence, people as one of the resources had to be used to the fullest. In relevant literatures on human resource management, people have been proven the determining factor in the success of any organization. People which include their physical, intellectual, emotional, social, political, spiritual and all other forms of development (Rao, 1996). Therefore, it is an acceptance culture to some organization to stem the value of working hard to achieve organizational goals. More often than not, poster and slogan with words of '*working hard for your organization*' is to remind and reiterate the staff of working hard. To add up with the work hard policy, reward will be used as the motivating factor and this will ensure, the staffs stay loyal and not complained.

Nevertheless, things started to change where, firms and companies have given the appropriate attentions to their workers. According to Warburg in leading organizations, managing and leading people are a very delicate function which involve development of initiatives and activities which require empathy and caring rather than treating them as a commodity. In today's competitive environment, companies have focused increasingly on human resource development as the main factor in creating of a more productive, skilled and adaptable workforce (Porter & Jenkins, 1996). Many has been said to induce and create a favourable organizational climate, the affairs and the development of workers should be favourable and balance with their rewards and as well as job satisfaction. One of the reasons which few companies having below average performance has revealed the dissatisfaction and low level of motivation among employees.

Therefore, for business today to focus and emphasis on production in which people as a commodity is no more relevant. In today's environment, job satisfaction and creating a motivating climate is more on the agenda of any corporate objectives. The aspects of attention to people is more clear nowadays where the setting up of assessment centre, flexible rewards system, bonus plan, goals-oriented performance appraisal organizational development and flexible work schedules (Hiltrop,1996). Assumptions of this new outlook is to reduced many negatives 'end-products' of workings, such as industrial actions, stress, low moral, no commitment and motivation. Companies are beginning to focus more on their human resources as employees today are having high expectations, needs and personal desires which create the working relationship for both employees and employers more varied and complex (Devanna et al, 1982).

Therefore, in leading people in an organization the practice of anarchy or authority is no more a trend in managing. Management and workers should have the understanding of each function to achieved organizational goals. Managers and leaders do have their objectives to achieve what has been outlined in their corporate plan or any organizational policies. For workers they have the obligations to abide and follow the needs and instructions of their boss. What workers do appear to want is a chance to increase their usefulness, creativeness, a chance to develop their full potential as individual within the scope of their environment and experience (Collier, 1968). Storey sees that human resource ought to be nurtured as valued assets, and not be regarded as an incidental cost (Storey, 2007).

Human resources, or employees, are perhaps the most critical resources a firm possesses because human capital underlies any organizational capability in the sense that organizations do not make decisions or allocate resources, people do (Ulrich & Lake, 1991). Organizations actually capitalize on the employees' ideas to leverage the financial and physical resources to create financial returns. By combining competent employees with multiple complementary human resources practices, a firm can attain competitive advantage as these combined resources become heterogeneous across the firm making them socially complex and difficult to imitate (Barney, 1991; 1995). By increasing the extent of human capital through the use of strategic human resource practices, employees' skills and capabilities can be developed to meet the demands of unpredictable environmental changes. The result of this adaptation process creates unique routines and procedures that have limited value outside the firm (Pennings, Lee & Witteloostuijn, 1998). Upon achieving this, the firm's human capital becomes firm-specific and can subsequently bring positive impact on performance.

The contribution of human capital to firm performance is basically from the flexible components of human assets found in the know-how, capabilities, skills and expertise manifested within the firm's employees (Edvinsson & Malone, 1997). It is largely tacit in nature and does not belong to the firm. Therefore, when an organization hires, develops and retains the best people, some degree of firm specificity of human capital created impacts transaction costs and can strongly influence the decision to internalize employment resulting in an increase in human capital value (Lepak & Snell, 1999). By attributing to the resource-based view of the firm, Lepak and Snell (1999) also hold the view that the uniqueness of human capital brings value to the firm when they enable a firm to implement strategies that improve efficiency and effectiveness, exploit market opportunities, and/or neutralize potential threats. It is this value that enables a firm to achieve the competitive advantage or core competence. Hence, human capital can be said to be the most critical resource in most firms as it is the attributes of human capital like education, experience and skills that form the basis of firm strategies and their implementation. These attributes, when interacted with tangible resources, bring positive impact to performance as a result of the firm's unique resource endowments.

6. Conclusion

For organization to be more competitive they must not only rely on the importance of their vision and mission or good corporate strategy. Nevertheless, it has created an interest in the corporate world to 'talk-up' human resource management as a coherent new strategy of employee relations that paves the ways to achieving competitive advantage (Legge,1995). To push workers to the limits in determining productivity and increased profits will end up creating a robots or uncreative workers with might lead to the extent of exploitation. Such environment, will finally shows and reveals negatives issues of low productivity, low quality, stress, no commitment, demotivated and conflict, to mention a few. The traditional way of managing people by autocratic or the styles of intimidation is no more valid in today business environment. Present days workers are more sensitive and critical of their leaders or their managing styles they were not hesitate to react and create a conflict situation if they feel been 'used and abused'. A research finding shows both aggressive and apathetic behaviours were deemed to be reactions to the frustration caused by a leader (Luthans, 2007).

Therefore, Stephen Warburg disapproved of treating workers like 'cows' which is purely for the purpose of production is not the quality of a good management. The concerned for welfare of staff, career pathing, performance appraisal, rewards, promotion, giving training, job rotation and most of all recognition is the most essential activities for the workers where human resource development is concerned. Thus the function of human resource department in many organizations has widened and form part of the organization corporate objectives. Human resource planning must be develop which focus on a long term development for staff which outline their development such as career pathing, training and much more to ensure their affairs and future with the organizations is guaranteed.

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