

## Chapter 78

# Human Capital Management for the Improvement of Competitiveness in Firms

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### ABSTRACT

*Human capital management has been viewed as a necessity to acquire and maintain a sustainable competitive advantage for firms since modern management theory emerged. In this chapter we will first give an overview of how knowledge capital can be linked to the competitive situation of companies. Then we will focus more specifically on how knowledge capital can be measured. We will use the MERITUM framework to measure how different aspects of the knowledge of the employees contribute to the competitiveness of the company. In the empirical part we will show a case study of how this analysis and measurement can be done. From the empirical study we find that the knowledge transfer process is the most important single factor to enhance competitiveness.*

### INTRODUCTION

Efficient human capital management has been viewed as a necessity to acquire and maintain a sustainable competitive advantage for firms since modern management theory emerged after WW2, with Becker (1962; 1994; 2011) cited as one of the founders of the human capital concept. Human capital management has no unique scientifically agreed upon definition but is normally looked at as the set of skills, talent, and knowledge of employees and the strategic skills of the organization (Kaplan and Norton, 2004; 2005). In a study conducted by Zula and Chermack (2007), human capital planning (HCP) was described as:

*...involves the recruitment, selection, allocation, and retention of human talent (intellectual and knowledge resources), including the training and education of these resources, which are linked to critical business strategies; and goals and objectives to gain competitive advantage in order to earn above average ROI (Return On Investment). (p. 255)*

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During the 1980's the term Human Resource Management (HRM) took over and replaced terms like personnel management, intellectual capital management and human capital management, but we still see these terms in use. In a book by Redman and Wilkinson (2008) we find a discussion about HRM and whether this concept has developed into something new or still keeps the focus on traditional personnel management. The most likely answer we can find is that HRM is now more concerned with business strategy and how to integrate HRM in the total optimization process of the firm. Another trend we can see is that HRM now has more focus on globalization and cultural aspects. There has also been a discussion as to whether the HRM focus should be on the most qualified parts of the workforce or a more general view of developing all parts of the personnel. This chapter will look at HRM from the theoretical and empirical side as a tool to integrate all parts of the labor force to reach the goals of the company. In compliance with this, a broad definition of Human Resource Management is:

*HRM involves management decisions related to policies and practices which together shape the employment relationship and are aimed at achieving individual, organizational, and societal goals. (Boselie, 2009, p. 92)*

## **COMPETITIVE ADVANTAGES AND KNOWLEDGE CAPITAL**

### **Introduction**

The concept of sustainable competitive advantage has been treated by several authors; we often look at Porter's work from the early 1980s as a rebirth of competitive analysis, (Porter, 1980). For Porter and his followers, the analysis of competitive advantage was characterized by a qualitative focus when you look at the keywords in Porter's diamond model but the analysis was also dependent on quantitative data collection to gain results.

The human capital aspect was brought into the analysis of Porter via the input factor of labor.

The human capital management tradition also offers several studies that link human capital with competitive situations, including early studies by Huselid (1995), Lepak and Snell (1999), Hitt, Ireland, Camp, and Sexton (2001), and Jackson, DeNisiand, and Hitt (2003). A more recent summary of possible relationships between human capital and competitive advantage can be found in Campbell, Coffand, and Kryscynski (2012) and a more general overview in The Oxford Handbook of Human Capital (Becker, 2011).

According to Hatch and Dyer (2004) and Kaplan and Norton (2005), for a company to retain its competitive advantage its human resources must be difficult to imitate to prevent rival companies from reproducing them. The concept of sustainable competitive advantage also provides an innovative dimension. Westernen (2012) demonstrates how different factors like educational level, managerial skills and the feeling of security in the company environment generally contribute to innovative behavior. Westernen (2012) also develops a set of indicators that are used to statistically measure the effects of the factors that contribute to innovative behavior. In this analysis definition of the knowledge concept and treatment of the transformation from tacit to explicit knowledge is crucial.

How human capital management relates to the performance of the organization is a topic that has been studied in different settings. In this perspective, research conducted by Skaggs and Youndt (2004), based on information from more than 200 organizations, establishes a positive relationship between practices

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