Strategic Relationships of Human Capital, Strategic Human Resource

Management and Human Resource Management

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Abstract

Purpose – Very little systematic research today has emphasised strategising the concepts of human capital (HC), strategic human resource management (SHRM) and human resource management (HRM) in relation to knowledge development, application, and dissemination in organisations. This paper aims to fill this gap by suggesting that strategic relationships exist between the three salient concepts.

Design/methodology/approach – A series of in-depth qualitative interviews with 35 non-profit executives from 22 social service non-profit organisations (SSNPOs) in Australia was conducted for this study.

Findings – The paper argues that there is an existence of strategic relationships among the three concepts and the relationships can create value that is larger than the total sum of all three concepts.

Research implications – The paper helps to build a nascent body of literature proposing the significance of strategic relationships between HC, SHRM and HRM in the social service non-profit sector. The increased awareness of the strategic linkage of the three concepts likely generates further research both from within and outside the non-profit sector. Also, it helps to clarify the three seemingly very similar and yet different concepts.

Originality/value – The paper is considered as a starting point and serves as a milestone for understanding the strategic relationships of HC, SHRM and HRM.

Keywords – Human capital; strategic human resource management; human resource management; social service non-profit organisations; knowledge flow.

Paper type – Research paper

Introduction

The concepts of human capital (HC), strategic human resource management (SHRM) and human resource management (HRM) have emerged as subjects of great interest to both academics and organisational practitioners. However, the existing literature of the three salient concepts has mainly focused on how the three separate concepts individually assist firm performance. Very little systematic research today has emphasised linking and strategising the three concepts in relation to knowledge development, application, and dissemination in organisations. This paper aims to fill this gap by suggesting that there is an existence of strategic relationships among the three salient concepts.

To explore and examine the strategic relationships of the three salient concepts, social service non-profit organisations (SSNPOs) were chosen for this research study. Social services, as defined in the Australian and New Zealand Standard Industrial Classification (ANZSIC), include child care, community care, and emergency and

relief (Australian Bureau of Statistics (ABS), 2002). SSNPOs are now operating under the influence of new public management (NPM), particularly through the strategies of contracting out and competitive tendering of social services (Bevir, Rhodes and Weller, 2003; O'Neill and McGuire, 1999; Sheppard, Fitzgerald and Gonski, 2001; Steane, 1999). Managing the social service non-profit sector has grown much more complex (Chetkovich and Frumkin, 2003; Goerke, 2003).

Like their government and for-profit counterparts, SSNPOs must utilise the full power of knowledge that is held with the organisational members of the organisations in today's knowledge economy. Accordingly, SSNPOs are required to strategise their knowledge management activities. Exploring and examining the strategic relationships of HC, SHRM and HRM are deemed to be essential to the development of knowledge strategies in SSNPOs. Through a series of in-depth qualitative interviews with 35 non-profit executives from 22 social service non-profit organisations (SSNPOs) in Australia, it was revealed that the three salient concepts could be strategically linked together creating value that was larger than the total sum of all three concepts in the participating organisations.

As put forth by the volume of literature, HC emphasises the human impact within an organisation on knowledge creation, the diffusion and utilisation of knowledge for strategic decision making (Wright, McMahan and McWilliams, 1994). HRM predominantly stresses the functional aspects of human resource related issues within an organisation (Paauwe and Boselie, 2005). Strategic human resource management (SHRM), which emerged as a macro-oriented HRM approach, primarily focuses on the relationships among HRM functions and ensures that the functions are fully integrated into organisational strategic objectives (Guest, 1989). Thus, even though the three concepts concern the human aspects of an organisation, they are fundamentally different. An understanding of the three concepts helps non-profit executives to formulate and implement human resource practices and strategies in relation to the creation, diffusion and utilisation of knowledge in the participating organisations.

The original contribution of the paper is twofold. Firstly, the paper helps to build a nascent body of literature suggesting that strategic relationships exist between the three concepts in organisations. Although the interview data was gathered from non-profit executives in SSNPOs, it was believed that the findings were also applicable to business and government organisations. Thus, senior executives should focus on the strategic relationships of the three concepts as the combination of the three concepts likely creates more value for their organisations than that of the individual concepts. This is particularly important to senior executives those who are directly involved in human resource practices, human resource strategy and knowledge management activities. Secondly, the paper helps to clarify the three seemingly very similar and yet different concepts.

The rest of the paper is divided into three sections. The first section provides a brief overview of the literature with particular attention to the comparison of the three concepts. The second section is a short outline of the research methodology. The findings of the interview data gathered from the participating SSNPO executives are presented in the third section. The paper will conclude with recommendations for future research in this area.

The concepts of HC, HRM and SHRM

The concepts of HC, HRM and SHRM have some similarity. All the three concepts concern the human aspects of an organisation. HC is one of the intellectual capital (IC) components (Bontis, Dragonetti, Jacobsen and Roos, 1999; Bontis and Fitz-enz, 2002; Edvinsson, 2002; Edvinsson and Malone, 1997; Sveiby, 1997). According to IC researchers such as Suillivan (1998) and Stewart (1997), any intellectual resource that can contribute to value added, both in monetary terms or in the degree of usefulness, for an organisation can be categorised as IC.

Within the IC literature, HC is defined as the knowledge stock that can be utilised to manage what employees know in organisations (Wright and McMahan, 1992). It contains various human resource elements including attitude, competencies, experience and skills, and the innovativeness and talents of people (Bontis, 2002; Choo and Bontis, 2002; Guerrero, 2003; Roos and Jacobsen, 1999; Roos, Roos, Dragonetti and Edvinsson, 1997). HC is important to organisations as it represents the tacit knowledge that is embedded in the minds of organisational members (Bontis, 1999; Bontis, Crossan and Hulland, 2002). In the case of SSNPOs, HC represents the knowledge, skills and experience of non-profit employees and volunteers. HC helps organisations, which include SSNPOs, to effectively respond to environmental changes through sensing the need for changes, developing strategies to meet the changes and efficiently implementing the strategies for complex and dynamic environments (Wright et al., 1994). As HC stresses the creation, diffusion and utilisation of collective human intelligence for strategic decision making, it is a source of innovation and strategic renewal for all organisations (Bontis, 2002; Bontis, Keow and Richardson, 2000; Webster, 2000). Therefore the importance of HC cannot be understated or SSNPOs may run a risk of making inappropriate or even inaccurate strategic decisions.

In short, HC is concerned with the holistic view of understanding of the development of internal intellectual resources in an organisation with an emphasis on the macro-oriented perspective of knowledge management related activities such as how knowledge can be strategically harnessed (Bontis et al., 2000).

HRM, on the other hand, mainly focuses on functional aspects of human resource related issues. It is concerned with HR practices or systems in organisations such as ensuring commitment from employees; creating a focus on values, mission and purpose; developing trust and designing organisational structure that maximises efficiency and effectiveness, and policy design and implementation (Paauwe and Boselie, 2005). Thus HRM consists of various micro-oriented, relatively short-term purpose of human resource functions including recruitment, training, appraisal, rewards and anything that can be used to manage employee relations in organisations (Boxall and Purcell, 2000).

A much more macro-oriented approach of HRM namely SHRM has emerged in the academic literature in the last two decades. SHRM mainly stresses the relationships among HRM functions and ensures that the functions are "fully integrated into strategic planning; that HRM policies cohere both across policy areas and across hierarchies; and that HRM practices are accepted and used by line managers as part of their everyday work" (Guest, 1989, p. 49). SHRM emphasises the macro aspects of integrating human resource deployments and activities which enable organisations to achieve their strategic goals (Wright and McMahan, 1992). It also provides an understanding why some organisations manage their HRM functions more effectively than others and how to formulate human resource strategies to gain competitive

advantages in organisations (Boxall and Purcell, 2000). Accordingly, even though HC, SHRM and HRM concern the human aspects of an organisation, the three concepts are fundamentally different. However, there is a strong link between the three concepts in SSNPOs. The strategic relationships of HC, SHRM and HRM are discussed in the next section.

Strategic relationships of HC, SHRM and HRM in SSNPOs

HRM processes embrace significant human knowledge and may help to facilitate and enhance the level of HC in SSNPOs (Rodwell and Teo, 2004). Specific HRM functions can be utilised to enhance the level of HC in an organisation (Youndt, Snell, Dean Jr. and Lepak, 1996). For instance, in the case of SSNPOs, comprehensive training is often perceived as a standard means of building and developing the skills and competence of existing non-profit employees and volunteers; selective staffing can be utilised as a means of minimising the mismatch between prospective non-profit employees and volunteers and the objectives of SSNPOs; and equitable reward and feedback systems provide a mechanism for retaining and motivating high calibre personnel in the organisations (Rodwell and Teo, 2004).

Non-profit employees and volunteers carry HC when they first join a SSNPO, though their level of HC increases with time in the organisation as they gain experience and new skills. A higher level of HC is often associated with greater productivity and higher incomes or compensation (Wilson and Larson, 2002). In the case of SSNPOs, a higher level of HC likely leads to more efficient non-profit operations and thus enhances organisational performance (Kong and Thomson, 2006). Thus human resource managers are often keen to make sure that all non-profit employees and volunteers receive certain level of training in their organisations; no matter how formal or informal the training may be. Thus there is a real need for ongoing training and development coupled with meaningful work opportunities that stress work congruence and organisational fit for both paid and unpaid organisational members in SSNPOs (Lynn, 2003).

On the other hand, a loss of organisational memory due to the departure of non-profit employees and volunteers may pose a threat to SSNPOs. Individuals take their talent, skills and tacit knowledge with them when they leave an organisation (Bontis et al., 2000; Grasenick and Low, 2004; Roos et al., 1997). This is particularly true to volunteers because they may leave SSNPOs at a very short notice or sometimes without any notice taking with them their knowledge and skills whereas paid staff are required to give notice (Kong, 2003a). Even though non-profit employees are required to give notice, the level of HC may still decrease if the organisations do not have formal human resource practices and policies capturing the HC that resides in the mind of their organisational members before they depart. It is therefore the interest of human resource managers to develop human resource practices and policies to recruit and retain the best and brightest employees and volunteers as a means of achieving sustained competitive advantage (Bontis et al., 2002).

Similar to HRM, SHRM may help to enhance the level of HC in SSNPOs. For instance, an integrated strategic HRM approach involves designing and implementing a set of internally consistent human resource practices and policies that attempt to harness a SSNPO's HC, particularly non-profit employees and volunteers' collective knowledge, skills and abilities, towards the achievement of its organisational objectives or social mission (Rodwell and Teo, 2004). As SSNPOs are now facing

greater financial constraints (Craig, Taylor and Parkes, 2004), growing competition for service delivery with for-profit organizations (Ramia and Carney, 2003), declining volunteer support (Lyons, 1999; Lyons, 2001; Lyons and Fabiansson, 1998) and losing commitment from nonprofit employees (Eisenberg, 1997; Eisenberg, 2000) since the introduction of new public management (NPM) in the 1980s, HRM functions such as recruitment and retention are increasingly challenging for SSNPOs. Due to the complexity of today's non-profit environment, non-profit managers are required to have more knowledge and skills to strategically manage the combination of both paid employees and volunteers in SSNPOs than they do to manage an entirely paid staff or a staff comprised solely of volunteers (Kong, 2003b). With adequate HC, human resource strategies are likely to be processed effectively because highly competent non-profit managers are able to perform human resource related activities more productively.

Since social services often require human interactions between service providers and clients and specific knowledge such as special needs of individual clients plays a significant role in the organisations, a long-term strategic plan of knowledge creation, utilisation and diffusion is particularly important to SSNPOs. This paper aims to explore the strategic relationships between the concepts of HC, HRM and SHRM in relation to the creation, diffusion and utilisation of knowledge in SSNPOs. In order to fulfil that objective, this paper employs a qualitative analysis methodology which utilises in-depth, semi-structured interviews, including both face-to-face and telephone interviewing approaches, as the primary data collection instrument. The next section outlines the methods used by this research study.

Methods

HC in its nature involves tacit knowledge and thus is extremely difficult to quantify. Also, the research on strategic relationships of the concepts of HC, SHRM and HRM is a relatively new area of enquiry. Thus it is important to allow a degree of flexibility during the research process so that the strategic relationships of the three salient concepts in SSNPOs can be explored and examined thoroughly. Accordingly, a qualitative approach adopting in-depth, semi-structured interviews of 45 to 60 minutes was thought to be the most appropriate approach to gather in-depth information regarding non-profit executives' view of the link of HC, SHRM and HRM in their organisations. Australian SSNPOs that delivered social services directly to their clients coupled with an established formal strategic planning mechanism within the organisations was the chosen sample population. The rationale for the selection criteria was to ensure that the chosen organisations would cover both macro and micro oriented knowledge management activities in regards to issues related to HC, SHRM and HRM.

Based on the sampling selection criteria, 51 SSNPOs were contacted via e-mail and telephone, of which 22 agreed to participate in the research study. The service provision areas of the organisations covered a wide range of social services including child welfare, youth services, family support services, services for people with disabilities, services for the elderly, and emergency services. In total 35 non-profit executives, of which 16 were women and 19 were men, in key strategic management positions within these organisations agreed to participate. The average number of years for the interviewees working in their current organisations was over 6 years with a range of less than one year to 40 years experience. Among the interviewees, 9

worked in the public sector, 8 worked in the business sector prior to joining their current organisations and the remaining 18 interviewees were always in the non-profit sector.

Interviewees were asked a range of questions regarding the concepts of HC, SHRM and HRM, and their strategic relationships in their organisations. The participants provided insights into their perception of the three concepts in relation to the strategic decision making of knowledge management activities in their organisations. Intensive semi-structured interviews were conducted over a ten month period (August 2003 – May 2004). To ensure the justification of theoretical saturation which determined whether data collection activities should end or carry on, an ongoing analysis was conducted through out the entire interview process (Richards, 2005). Theoretical saturation occurs when no pertinent or new data emerge; the properties and dimensions of emerging categories are well developed; and the relationships between categories have been established and validated through the data collected (Strauss and Corbin, 1998). In this case theoretical saturation occurred after 27 interviews and 8 further interviews were conducted to validate the emergent categories.

To ensure the accuracy of data collection and subsequent interview transcription, a digital recorder was used to record conversations for all interviews (Johnson, 2002). All interviewees gave consent for taping. Interview transcripts and research notes were directly input into NVivo, a computer-aided data analysis software program for qualitative research. The data were then coded into units of meaning (known as "free nodes" in NVivo) according to the exact words of the participant (Creswell, 1998), which were then further analysed to capture the emergent properties and categories of the common themes (Charmaz, 2003). To maintain the confidentiality of the participants each participant was assigned a code (e.g. SSNPO Exec-1) and the numerical order was not indicative of the interview chronology.

The next section discusses the research findings and implications. Whenever appropriate, quotes will be extracted from the interview data to explain and demonstrate all the salient findings emerged in the data analysis.

Research findings and implications

After a critical analysis of the interview data, it was revealed that the concepts of HC, SHRM and HRM were not stand alone concepts. Significant knowledge transfer existed between the three salient concepts, which represented the strategic relationships of the three concepts in the participating organisations. These strategic relationships may include the development, facilitation and dissemination of knowledge and the transfer of knowledge from one concept to another and from one perspective to another. The notion that knowledge flowed between the concepts of HC and SHRM was illustrated in the following example.

> … the *knowledge* that our staff have in dealing with issues such as homelessness … can advise on *various strategies* … (SSNPO Exec-15, *emphasis added*).

As emerged from SSNPO Exec-15's quote, non-profit employees' collective "knowledge" represented the HC within the organisation. The "various strategies", on the other hand, were taken to include human resource strategies in the participating organisation. Thus, as evidenced from the above example, HC helps to provide accurate information in relation to strategic decisions on human resource strategies for

long term organisational success. The following example further illustrated that HC had a crucial role to play in the non-profit SHRM process.

> If you don't have the right human capital in the first place, sometimes you won't get the right form of strategic plans because they [*non-profit employees*] don't necessary have the past experience, creditability, skills and talents to identify the opportunities to be coming (SSNPO Exec-13).

Senior non-profit executives' strategic decisions can have significant impacts on organisational members' learning and knowledge acquisition. Thus HC can directly enhance HRM practices. The notion was supported by the following examples.

> The CEO drove the board of directors and say we need to be considering all these [new non-profit activities] and the board accepted … And then it [the board] drives the whole human capital as new team is created (SSNPO Exec-12).

> … we [senior non-profit executives] value people's work, and we value people's creativity. We value that you are taking risks and we back you … as long as it is an educated risks and we want you to be entrepreneur. We want you to live in your dreams and we will try to resource them and as long as they are within our strategic direction. So it is about encouraging people to build on their own professional learning and knowledge and do things (SSNPO Exec-4).

In SSNPO Exec-12's quote, team-building as a HRM function was established as a result of the collective knowledge of all senior executives. Also, as illustrated from SSNPO Exec-4's example, senior executives' attitude can significantly influence human resource practices such as the development of learning and knowledge in the organisation. As attitude, knowledge and experience are key elements in the concept of HC, HC plays an important role in HRM practices. Accordingly, there is a clear knowledge transfer from HC to SHRM, and then from SHRM to HRM as better informed non-profit executives likely formulate and implement more effective HRM strategies and activities. Such a transfer of knowledge represents the strategic relationships between the macro-oriented concepts (HC and SHRM) and the micro-oriented concept (HRM) in SSNPOs. The following quote demonstrated the strategic relationships from HC and SHRM to HRM.

> … we identify our strategy of what we want to be in the next three or five years. Then we go through what do we need to achieve the strategy … Do we have the right recruiting process? For example, what extra training do we need for our staff to provide our new services? (SSNPO Exec-16).

Since identifying strategies requires considerable knowledge, skills and experience from organisational members at all level, HC helps to drive SHRM process and the formulation of human resource strategies. Well implemented human resource strategies provide strategic direction for HRM activities in SSNPOs.

> Human capital in the strategic management is bringing together the knowledge that we have within our people and how to get the most of our people to deliver our strategy. And that will require our assistance in place to make sure we get the best from the people we have and where we don't have the skills we can source them from outside or something like that when we need to (SSNPO Exec-16).

As emerged from SSNPO Exec-16's quote, the initiative to source appropriate form of HRM activities such as adding extra training for existing staff or recruiting the right people with the right skills was a result of a collective knowledge from organisational members. Thus HC can inform non-profit executives what HRM

practices they should undertake in their organisations. This notion was evidenced by SSNPO Exec-12's examples below.

> The organisation is growing and has changed. To set our mission higher and work harder, we need to acquire new team members with new knowledge and skills. All of these have been achieved since our new CEO joined in [at the end of last year]. I joined in [the beginning of this year]. The [operation] executive joined in [the same month], we have changed [one of] the [management function] executive last month and now a new executive starts on Monday … we achieved all these in ten months. Also … we recognise that our existing marketing team did not have enough human capital, so we then have a complete review of our marketing team, and have a complete re-organised marketing team. To extend that, we created five new roles … both geographic … so we identify that we need to have representation of staff in [an Australian state] … (SSNPO Exec-12).

SSNPO Exec-12's quote demonstrated that HC helped senior management team to recognise when and where new positions were needed in the organisation. This helps to implement and formulate practices and strategies on manpower planning and recruitment. Most importantly, the focus of HC not only guides senior executives to emphasise "quantity"; that is recruiting sufficient number of staff members, but also "quality"; that is recruiting employees with appropriate knowledge and skills in the organisation. The following example illustrates the above point.

> Human capital? We try to recruit people with skills and expertise. And we have very carefully targeted in a particular industry and sector and we try to get somebody who has the experience, passion and expertise. So we want to have someone who is trained and has experience (SSNPO Exec-11).

However, strategic relationships of HC, SHRM and HRM are not one-way and HRM should not be seen as a passive concept waiting to be processed. On the contrary, HRM activities can actively help to shape the other two concepts. As illustrated in the following example, good employee relations between strategic management team and general staff helped to facilitate strategic planning.

> I think all of our strategic management team are in various contacts with other staff in the organisation … We are currently in the process of developing a strategic plan for the next three years and the process will be carried out in various consultations across the country and with focus group of staff in all of the states and in all of our regions. So the good link between the strategic management team and staff helps the management team to get input from our staff. So the strategic plan will reflect the thinking of as many of the staff as possible (SSNPO Exec-15).

Demonstrated from SSNPOs Exec-15's example, good employer-employee relationships not only help to gather information for strategic human resource planning, but also assist the implementation of the strategies once they are formulated. A two-way communication strategic management process aids to develop an informed human resource strategy, which likely involves strategic decisions that enhance the collective knowledge, skills and experience of non-profit employees and volunteers; or in other words, HC. Accordingly, HRM activities not only help to inform non-profit executives to formulate HRM strategies, but also sustain or even increase the level of HC in SSNPOs.

Revealed from the interview data, flexible management style was another example of HRM function which helps to facilitate and develop HC in the organisations. Being a flexible employer as a human resource practice can assist SSNPOs to maintain or enhance the level of HC in their organisations. This view was supported by the following example.

We are looking for ways of being a flexible employer. I am here as for part of my life balance. I have my deal of working at [our organisation] and all our executives are to trade with our money that we get paid to get some time off. So we negotiate to get some time off. I get a day off every fortnight and that gives me some life balance. That is important to me. So if the organisation said no and we did not allow that sort of flexibility, I would be less attracted to work here. So we are looking to be flexible enough to enhance our human capital to response to it (SSNPO Exec-12).

Training was another HRM function that was frequently mentioned by the participants in the interviews to enhance the level of HC in their organisations. Training can be "instrumental in increasing the knowledge and competence of individuals" (Johannessen and Olsen, 2003, p. 283) and is a "precursor" for organisations to improve their productivity (Savery and Luks, 2004, p. 122). Either way, the success of an organisation, regardless of whether it is profit oriented or not, clearly depends on the skills and actions of its people and a key determinant of this will be the way that organisational members are developed (Barton and Delbridge, 2001). The following example indicated that the participating organisations were willing to invest in their employees by providing them with appropriate training.

And we are very much involved with the University [in an Australian state] and other places in training people every year because people move on, a lot of our staff are female and younger female often move on after a few years. They get married, they have maternity leave. We are always in need of replenishing staff. If we don't do that we can't sustain in the future. So a large amount of our resources is to deploy into training people [non-profit employees] (SSNPO Exec-8).

… there is also a very strong support of training within our organisation, so somebody needs training, we have our internal training programs. Next week there is a training workshop on discipline and managing discipline situation, so we do have quite a bit of internal training programs. We want to continue to develop skills and competency and training (SSNPO Exec-2).

We send our executives on overseas study trips to U.S. and U.K. (SSNPO Exec-14).

I have been in (a major American university) twice in the last two years, just learning the best way to measure our performance and I have found specific courses in (a major American university). They are in terribly useful (SSNPO Exec-27).

Thus training is important to SSNPOs as it helps to facilitate knowledge development, application, and dissemination. This analysis offers a strategic insight to non-profit executives in relation to planning human resource strategy and knowledge strategy. The notion that training is instrumental in increasing the knowledge and competence of non-profit employees in the participating organisations is evidenced in the following examples.

How can we improve and enhance the knowledge and skills of our staff? I think it is done by training. We train our staff. So we are adding their knowledge and skills (SSNPO Exec-12).

It is certainly a good thing to enhance the knowledge and skills of non-profit employees by providing formal training to them. However, the concept of HC is about facilitating knowledge development, application and dissemination. The process of enhancing HC or knowledge within SHRM process and HRM practices does not always require a substantial amount of resources. Indeed, informal communications can also be an effective technique to facilitate knowledge sharing. Thus the focus of strategic relationships of the three concepts will likely guide and redirect SSNPOs' attention and resources towards the most favourable outcomes through the most

appropriate channels. In other words, the value creation as a result of the emphasis of the strategic relationships of HC, SHRM and HRM will likely greater than the total sum of all three concepts. This paper argues hat an understanding of the HC, SHRM and HRM strategic relationships will likely help SSNPOs to achieve the most favourable outcomes through the most appropriate channels.

Conclusion

Drawing from the interview data, this paper argues that strategic relationships between the concepts of HC, SHRM and HRM exist in SSNPOs. A strategic insight for non-profit executives from the above analysis is that they should not only look at what knowledge and skills they have embraced, but also need to focus on how to facilitate knowledge and skills effectively. Stating it differently, it is not only about how to manage the concepts of HC, SHRM and HRM individually, but also how to effectively facilitate the three salient concepts concurrently. An understanding of the strategic relationships of the three concepts is thus important to SSNPOs.

However, the understanding of the strategic relationships of the three concepts do not only limit to non-profit executives in Australia. The paper is considered as a starting point for understanding the strategic relationships of HC, SHRM and HRM. Thus, there is a potential research area to explore how non-profit executives from different countries may perceive the three salient concepts. Further research could also apply to test the significance of the HC, SHRM and HRM strategic relationships in organisations from the private and government sectors.

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