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The Last "Green Field" of Enterprise's Competitive Advantages: A Discussion on Human Capital and Human Resource Management

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Abstract: *Every company has its own tangible assets (financial and physical assets, etc.) and intangible assets (trademarks, customer relationships, employees, etc.). In the past, tangible assets were the main source of competitive advantage, but they are increasingly unable to reflect their particularity or special advantages that distinguish them from others. Smooth and multi-level financing channels such as debt financing, equity financing, can no longer give a company any competitive advantage, nor can it distinguish it from competitors. The same happens with technological means and tools. The company that adopts the new technology first has a competitive advantage that can last for several years, but now, the advantage brought by the new technology is fleeting, and the technology of one company can be easily obtained by other companies, imitation or surpassing, which makes technology no longer an advantage, but gradually becomes a necessity, such examples are too numerous to mention. At the same time, increased competition is causing things that were previously unimaginable: small companies competing with large companies, and new companies competing with established companies.*

Keywords: *Comparative advantage, Human capital, Value creation*

1. Introduction

Due to my professional background for over 2 decades, I often think about human resource management and some related issues. There are too many myths and speculations about human resource management. In order to improve operational efficiency, those world-renowned companies actively explore various leading tools and methods in aspects such as production technology and process, supply chain management, customer relationship management and financial means; in contrast, the vast majority of human resource management policies and measures seem primitive and simple. As a result, few companies know exactly how much return on investment they have in human resources; the same is true for human resource policies that can improve overall business results. Numerous constitute the definition of human capital, as shown in Figure 1.

Figure 1 What Makes Up Human Capital?

It is more and more clear that the resources which could have created value and brought competitive advantages in the early stage, such as smooth financing channels, technological means, economies of scale, etc., have been relatively weakening in importance. And the last advantage resource that has not been developed is the largest intangible asset of most enterprises: human capital and the enterprise's human capital management system. Although many companies are also proclaiming: "Employees are our

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most important asset", most of them have not put it into action or the effect of action is not so much. In any case, in a world where knowledge and customer relationships are becoming more and more important, human capital, which combines a company's knowledge, craftsmanship, creativity and experience, is gradually showing its increasing strategic importance.

Human capital comes in two basic sorts of forms [1]. The first is general-purpose human capital, meaning that employees possess characteristics and qualities that are important to current and potential employers alike. They join companies with general knowledge, and then enhance their talents through various forms, such as earning new degrees or professional qualifications through on-the-job learning outside the company. These qualifications allow them to advance in the company of their current or new employer. General-purpose talents are easier to transfer between different business units and different companies. The second form is enterprise-specific human capital. It embodies the value of employees that are unique to a particular business and increases over time with the length of an employee's tenure and experience. Intra-company training and structured transfer programs between related positions can accelerate the increase in the value of a company's specialized talent. Business professionals are distinguished from others by their special value to the companies in which they grow. To achieve success, different enterprises have different requirements for the combination of general-purpose talents and enterprise-specific talents. No one is always the best or the most correct, even in the same enterprise, different job requirements are different. This requires us to conduct as detailed analysis and planning as possible on the strategy, model, and goals of enterprise development, so as to propose the human capital structure, scale, and operating model that support the business development of the enterprise to the greatest extent.

The long-lasting and stable characteristics of human capital and the competitive advantages [2] it brings prompt enterprise insiders to try how to better evaluate employee performance and how to better carry out effective incentives. Propositions show increasing agreement. Internally, companies have long evaluated productivity in broad financial terms (employee earnings) or based on individual performance or actual operational levels (hourly work). These evaluation methods are simple and easy to implement, but they cannot reflect the link between management methods and management effects. The key lies in: what should enterprises do in order to make full use of human capital to create greater value, improve management efficiency, and predict management results more effectively? To find out, businesses must answer questions that most companies never consider:

How much do we spend on human capital (cost), and what do we get for that human capital (value)?

Can we be sure that our human capital strategy matches our corporate design?

Can we change the existing employee management methods through personnel optimization or increase investment to create greater profits?

2. Key points for human capital management

For these complex questions, we are still unable to give definite answers. However, we have initially explored the basic ideas and directions for solving these problems. The following points are our experience and I would like to share with you:

2.1 Insist on systematic thinking

Human capital policies must fit the business model. These two aspects of decision-making influence each other and restrain each other. If they are isolated from each other, both sides will suffer. And, both should fit the market: the company's customers, the competitive environment it operates in, and the regulatory environment. Systematic thinking has 3 key building blocks(Figure*2*):

Interconnections: Projects and people are connected. A systems thinking approach identifies those connections. This shifts the problem from a linear solution to a circular solution.

Emergence: The opposite of working “in silos,” emergence is where a larger idea or outcome is born from smaller parts. It often is a better solution than any single “silo” could have designed.

Synthesis: This means combining two or more things to create something new. “Sometimes you’re combining old ways to make a new way. Sometimes you gain new information and create something new.

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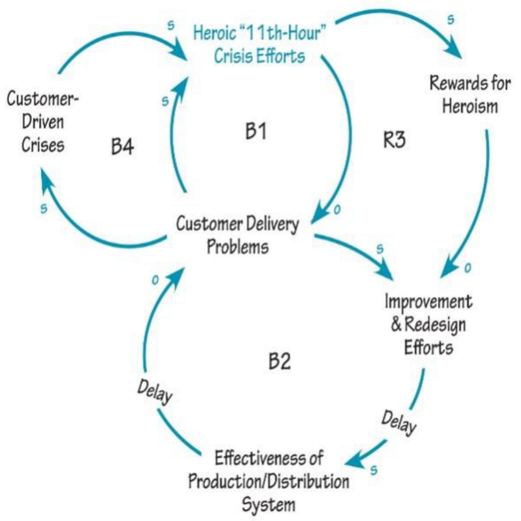

Figure 2: Illustration of Systematic Thinking

An enterprise is a complex system that includes many interrelated factors and subsystems. Changes in one subsystem trigger changes in other subsystems [1]. In turn, a business itself exists within a larger system that includes its customers, suppliers, shareholders, competitors, and the general state of the economy. Therefore, major changes in a company's pricing, products, or internal policies will have an impact on the broader environment. A systems thinking approach can be applied to business situations such as:

The complexities of managing airline fleet maintenance and setting schedules, and staffing for on-time arrivals.

The difficulties a marketing department may have in getting projects out the door — as finance, legal, creative and business realities collide.

The implementation of a new software that addresses customer service issues but may trigger business inefficiencies or require large expenses.

Human capital and its human resource management system are no exception. Generally speaking, human capital is inseparable from the company's business strategy, business assets, customer value, market environment, etc.; similarly, the recruitment, rewards and punishments, development, and promotion within the human resource management system are also interlocking and systematically linked. . For example: A company mainly adopts two methods of rewarding and commending employees: salary increase or promotion. However, in order to cut costs, the original narrow-band salary system was canceled and replaced by a broadband-style salary system. The new system means fewer salary levels, which also means lower overall wage levels and wage costs. For example, salary adjustments within the same grade do not incur the cost of an employee's salary being promoted to a new grade, while fewer salary grades also result in job flattening, that is, a reduction in job levels. However, this cost-cutting approach would cause the whole system to collapse, because the introduction of a new compensation system would make promotions as rewards infeasible, which would greatly damage employees' loyalty to the company.

You can know the whole leopard from a glimpse. The simple example above can tell us that whether it is the systematization between the various parts of the human resource management system or the systematization between human capital and other corporate capital, it affects the whole body. System thinking is the primary working method to solve the problem of human capital efficiency.

2.2 Collect the correct facts

Not only relying on external resources and internal observations, but also going deep into the enterprise to obtain new inspirations based on human capital management models and performance trends. For policymakers, facts are like lights in the dark: they illuminate our surroundings and increase our confidence. Of course, these facts alone do not predict the future, so we still cannot make decisions with sufficient confidence. However, past and present facts can help us reduce uncertainty and increase

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our chances of success [2].

Where do the facts on which human capital decisions are based come from? The vast majority of managers will collect relevant information from inside and outside the enterprise. This approach works well if the data collected and used are "correct," that is, they are very relevant to the actual situation and the specific circumstances of the enterprise. External data remind us of innovative practices that benefit the business, and with this data we can see where the business is going, and sometimes beat the opponent. However, the information obtained through corporate benchmarking or other means may not be suitable for one's own situation, and an objective and comprehensive research on the information must be carried out here.

Toyota Motor Corporation of North America came close to falling into the data trap not long ago. This world- renowned company conducts an annual employee survey and relies heavily on the results to develop its human capital program. Toyota believes that wages and promotions are closely linked to employee performance. At the same time, in order to improve the technical level of employees, it also provides a large number of training and employment management programs, aiming at giving potential employees the opportunity to broaden their technical knowledge through job transfer.

Toyota was taken aback, however, by survey results showing that employees simply did not value these costly training programs. The survey learned that employees' salaries and promotions were irrelevant to performance levels, and that employees did not feel they benefited from training and salary transfers. Toyota believed the employees' claims, analyzed these factors together, and concluded that Toyota wasted a lot of money every year on these personnel programs. After listening to the voices of the employees, the company's management is ready to consider revising the company's performance management and compensation system, and diverting relevant funds to other programs.

However, there is evidence of a complete disconnect between employee understanding and company practice. Analysis of employees who actually received high pay and promotions revealed that high performers were actually rewarded. Employee payroll and human resource records provide evidence of this. This evidence, in contrast to employee surveys, shows that in well-run systems, wages and promotions are strongly associated with performance, and they are also strongly associated with intra-company transfers and training. HR records over the years clearly show that, other things being equal, employees who have completed company-sponsored training and received job transfers within the company earn significantly higher wages than other employees who have not received training or transfers.

If the company fully listens to the words of the employees, it is tantamount to wasting a lot of time and money to modify or cancel the original reasonable human capital plan. But if a company ignores survey results at all and relies entirely on HR information systems and payroll records, it may be missing the real problem: preventing employees from understanding what the company really values, how the company measures performance standards, and how the company rewards certain special performance and work products. These understandings all depend on the investigation of "words" and "deeds". What Toyota has really done is to change the way it communicates with employees, and the cost is not high. Companies need to communicate facts about job performance, training, job mobility, and how these factors relate to higher wages and promotions. Based on these facts, Toyota can bridge the gap that exists between corporate management and employee awareness.

2.3 Focus on value creation

The third principle of human capital management has to do with value [3]. The excess of revenue over costs (including capital costs) is value. A business is doing the right thing if it focuses on value and the activities and decisions that create value. (Figure 3)

For companies anywhere in the world, creating long-term shareholder value requires satisfying other stakeholders as well. You can't create long-term value by ignoring the needs of your customers, suppliers, and employees. Investing for sustainable growth should and often does result in stronger economies, higher living standards, and more opportunities for individuals. It should not be surprising, then, that value-creating capitalism has served to catalyze progress, whether by lifting millions of people out of poverty, contributing to higher literacy rates, or fostering innovations that improve quality of life and lengthen life expectancy.

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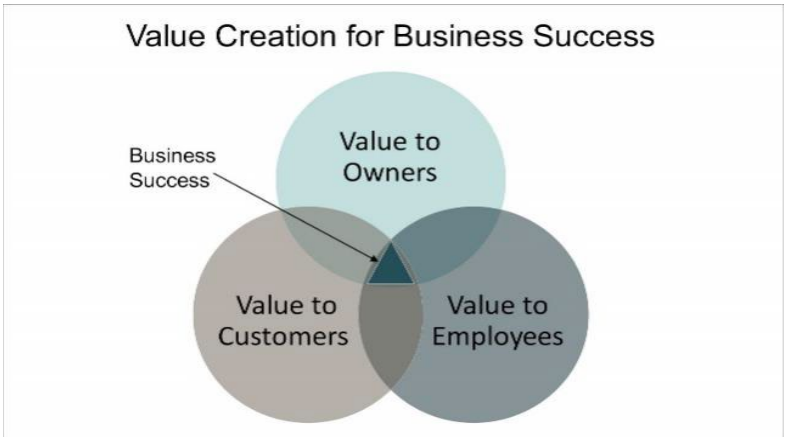

Figure 3 Value Creation for Business Success

Human capital, like other assets, is an investment that yields economic returns. Assets create real value when returns are positive—that is, when benefits exceed costs. It brings not only present rewards, but future rewards to some extent. Any changes made to the asset will affect these returns. So, rotating employees' jobs, investing in training, and redesigning wages and incentives can all increase a company's potential to create value. The issue of employee retention is a personal choice, but it will also affect the value creation ability of enterprise human capital. Corporate policies and practices can influence employees' choices about whether to stay or stay, but they cannot ultimately control them. Therefore, a company's human capital assets are constantly changing, and its ability to create value for shareholders and customers also fluctuates.

But we must admit that most managers tend to view human capital as a cost rather than a value-creating asset. Therefore, they keep human capital under tight control as a cost and minimize it. Traditional accounting practices treat investments in employees as expenses rather than capital, creating a false understanding of human capital. Cost cutting has its limits. Yet the potential value of human capital knows no bounds. What they don't realize is that investment in human capital can improve corporate profitability and motivate employees as effectively as training and various financial instruments.

3. Application of Value Creation

What do we mean by value creation? For the customer, it entails making products and providing services that customers find consistently useful. In today's economy, such value creation is based typically on product and process innovation and on understanding unique customer needs with ever-increasing speed and precision [3]. But companies can innovate and deliver outstanding service only if they tap the commitment, energy, and imagination of their employees. Value must therefore be created for those employees in order to motivate and enable them. Value for employees includes being treated respectfully and being involved in decision-making. Employees also value meaningful work; excellent compensation opportunities; and continued training and development. Creating value for investors means delivering consistently high returns on their capital. This generally requires both strong revenue growth and attractive profit margins. These, in turn, can be achieved only if a company delivers sustained value for customers. An important principle for effective management of human capital is to focus on value creation. Calculating the cost of employees is easy, but calculating the value that human capital practices and characteristics can create is not only difficult but also foreign to us. To understand what HR practices and characteristics create value, we must have facts, not assumptions and expectations. Only by knowing the facts can managers make informed decisions about how to invest and work according to the particularities of the industry in which the business operates. The following points are our experience and experience:

Cost and value are not the same. Companies are very good at calculating the cost of human capital, but few companies can accurately calculate the value created by human capital.

The source of human capital value includes human capital characteristics and enterprise practices. Human capital characteristics include factors such as working years, work skills, industry experience, and professional quality; enterprise practices include recruitment allocation, reward and punishment mechanisms, development and promotion, etc.

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We can use various tools and methods to understand what kind of enterprise human resource characteristics and personnel programs can create the highest value.

Only by realizing the value created by human capital can enterprises manage their intangible assets more effectively.

4. Conclusion

Human resource management is a practical activity that closely combines science, art and human nature. It is because it involves so many fields that it is so difficult for us to understand, manage and control it. But the good news is that modern enterprise management is becoming more scientific and normative, management methods and tools are becoming more abundant, and management awareness and cognition are improving day by day. We are confident in promoting the continuous optimization, improvement and improvement of enterprise human resource management, so as to support the company's business development and goal realization to the greatest extent.

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