



International Journal of Economic Research

ISSN : 0972-9380

available at <http://www.serialsjournals.com>

© Serials Publications Pvt. Ltd.

Volume 14 • Number 15 (Part-II) • 2017

Human Capital, Operational Capabilities and Organizational Performance. A Proposed Conceptual Framework

Saad Hassan, Tang Swee Mei and Husna Johari

School of Business Management, University of Utara Malaysia

Corresponding author E-mail: smtang@uum.edu.my

Abstract: Today main stream of organizational researchers is to identify the mechanism through which they can leverage their knowledgeable workforce in distinct manner. Theoretically, resource based view (RBV) proposes that strategic resource like human capital is a significant contributor of organizational performance. However, in order to utilize resources in exceptional way, organization required unique capabilities such as operational capabilities. Accordingly, this paper sought to bridge the gap in the literature by proposing a conceptual framework that links human capital with operational capabilities. Moreover, this study intends to highlight the mediating potential of operational capabilities between human capital and organizational performance.

Keywords: Human Capital, Operational Capabilities, Organizational Performance

1. INTRODUCTION

In order to remain competitive in global business environment, organizations of the contemporary world are focusing on factors that enable them to struggle for better performance (Hassan & Hassan, 2015). With objective to remain competitive, main psychology of the organizations is to maximize the impact and efficiency of human capital in a manner that enhances the performance (Crook, *et al.*, 2011). Organizational researchers are of the view that knowledge embedded in human capital is a key ingredient as this is arguably more advanced than surrounding other resources (Wright, Coff & Moliterno, 2014; Hitt *et al.*, 2017). Human capital is the potential source of enhanced performance and this phenomenon is epitomized by the resource based view (RBV) which posit that strategic resources such as human capital explain performance differences among organizations (Sujchaphong, 2013; Hitt *et al.*, 2017). However, converse to this there are wide number of researchers who argued that human capital does not directly relate to the performance of the organization (Joshi, Cahill, Sidhu and Kansal, 2013; Chan, 2009). Only possession of valuable, rare,

inimitable and non substitutable is rarely enough for organizations to generate superior performance (Anderson, 2011). Resources itself do not provide enhance performance without the capability of an organization to utilize them in most favorable manner (Huang, Wu and Rahman, 2012). Resources create new set of capabilities and these capabilities enhance the performance of the organization (Sirmon, Hitt & Ireland, 2007). Therefore, resources required adequate capabilities (Anderson, 2011), such as operational capabilities to improve organizational performance (Wu, Melnyk and Flynn, 2010).

Operational capabilities are the subset of organizational capabilities and these capabilities deploy the organizational resources in a distinct way. Moreover, these capabilities are the secret ingredient while determining organizational performance (Wu *et al.*, 2010). Inputs to these capabilities are the organizational resources. More specifically, Wu *et al.*, (2012) stated that human capital can be significant input to the operational capabilities. The knowledge, skills and abilities embedded in human capital can facilitate the operational capabilities to grow. However, besides the importance of human capital as an input to operational capabilities, its relation is completely overlooked. Previous, research studies have highlighted relationship between the human resource practices, human capital and organization performance (Hitt *et al.*, 2017; Farouk *et al.*, 2016; Ceylan, 2013; Ployhart, *et al.*, 2014). Nevertheless, human resource practices are tool which enable the human capital to fulfill the goal of the organization while human capital is the resource that provide competitive advantage to the organization (Wright and McMahan, 2011). For this reason, studies should emphasize on human capital rather than human resources practices (Sujchaphong, 2013). In addition, human resources practices have been linked with the human capital and organizational performance however, the mechanism that how human capital effect organizational performance is completely overlooked.

Therefore, based on above discussion and under RBV direction, this study proposes a conceptual framework by linking human capital with organizational performance through the mediating role of operational capabilities. As to develop a competitive advantage, it is important for every organization to understand how to leverage their knowledgeable workforce in a way that increases performance. Consequently, this study focuses on relationship of human capital with performance of an organization through the intervening role of operational capabilities.

2. THEORETICAL BACKGROUND

Human capital

Gray (1987) describe that human capital is the ability, knowledge and skills of employees. In the same context, Roos and Roos, (1997) also defined the human capital as the as the skills, knowledge, experience, education, qualification and talent of the employees. Further, human capital is embedded in the minds of the employees (Yen, 2013; Lee *et al.*, 2011). However, Ployhart and Moliterno (2011) stated that to study the human capital there are two levels one is micro level and other is macro level. Micro level human capital is related to the individual study whilst macro level is the study at organization level. Micro level scholar studied the human capital as the relationship between the individual level phenomena which includes the skills, knowledge, abilities and other attributes of individual employee. On the other hand macro level is the relationship between the organization level phenomena which includes the organization level experience, knowledge, skills and other attributes of employees (Ployhart, Nyberg, Reilly and Maltarich, 2014; Wright and McMahan, 2011; Ployhart and Moliterno, 2011).

From the macro point of view it has been assumed that organization drives the individual's actions (Coleman, 1988). Further, individual's behavior is dependent on the structure, routines and roles in the organization. Therefore, individuals tend to be homogenous (Felin and Hesterly, 2007). Further, from the resource based view (RBV) of the firm human resource is described as the important strategic resource of the organization which posses the characteristics of the valuable, rare, inimitable and non substitutable (VRIN) (Priem and Butler, 2001). Human capital can be source of organization's competitive advantage (Campbell, Coff and Kryscynski, 2012; Wright and McMahan, 2011; McMahan *et al.*, 1999). In the similar context, Hsu and Wang (2012) also argued that human capital is the strategic asset in the RBV literature. The RBV confirms that the human capital is the vital source to support firm in achieving better performance and competitive advantage. This is because human capital is rare, valuable, non-substitutable and not imitated easily (Kim *et al.*, 2012). Thus, based on the discussed literature the present study will incorporate the organization level human capital that leads towards the improved organization performance rather than it is just effect the individual job performance.

Operational capabilities

Operational capabilities which are the subset of organizational capabilities improve the business process by making it effective and efficient optimum utilization of resources (Krasnikov and Jayachandran, 2008). Moreover, these capabilities provide competitive advantage to the organization by allocating the organizational resources in distinct way. Study of Winter (2003) argued that these capabilities are the high level routines of an organization that produce significant output of particular type. Moreover, these capabilities enable the organization to reduce their cost and improve quality (Helfat and Winter, 2011). Routines of these capabilities are continuous improvement and incremental innovation (Bessant, Caffyn and Gallagher, 2001). Previous literature operational capabilities have identified several dimensions; however, technical/ technological capability, managerial capability and marketing capability are of greater importance (Nerkar and Roberts, 2004; Prašnikar *et al.*, 2008; Pavlou and El Sawy, 2011; Wilden and Gudergan, 2015). These three capabilities are related to the operational aspect of the organization; therefore, these reflect the operational capabilities.

Technical/technological capability enables the firm to become more efficient and effective in shape of reducing error and enhancement of quality of business process execution (Dangol, 2012; Devaraj and Kohli, 2003). Similarly, marketing capability is the ability of the organization to link and serve the particular group of customer. This capability allows the organization to use market knowledge to their advantage, make advantageous relationship with the customers and maintain strong customer base (Wilden and Gudergan, 2015; Song *et al.*, 2005; Spanos and Lioukas 2001). Furthermore, managerial capability is the ability of the managers to actively participate in the business activities of the organization. Moreover, it is the ability of the managers to monitor the activities and performance of the organization (Sethi, Smith and Park, 2001).

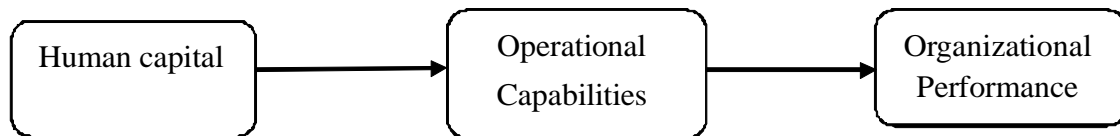
Mediating potential of operational capabilities

According to RBV, performance of the organization lies on their resources and capabilities. On the basis of resources and capabilities organization differentiate itself from their competitors. Sustainable competitive advantage of the firm is derived from its resources and capabilities however; resources should be valuable,

rare, imitable and non substitutable (VRIN) (Barney, 1991). When the resources are valuable they will help the organization to create and implement strategies which enhances the efficiency and effectiveness. Similarly, resources would be rare when more organization want these resources and able to obtain it. Likewise, imitable and non substitutable of the resources means they are immobile and expensive to replicate and imitate.

Human capital is that resource which posses the characteristics of VRIN and they can provide increase organizational performance (Wright, Coff & Moliterno, 2014). However, in order to obtain sustainable competitive advantage organization must also have the ability to utilize its resources (Barney and Clark, 2007; Conner, 1991). Operational capabilities are the subset of organizational capabilities and similar to organizational capabilities input to these capabilities are the resources of the organization (Wu *et al.*, 2012). Operational capabilities provide direction, unity and integration to the resources of the organization. In addition, they sum up both explicit and tacit elements of the organization. Explicit elements include the resources and tacit includes the know-how and skills sets (Wu *et. al.*, 2010). Therefore, human capital can be significant predictor of operational capabilities as knowledge embedded in employees can facilitate these capabilities to grow. Thus based on above mentioned theoretical discussion this study proposes the following conceptual framework.

3. CONCEPTUAL FRAMEWORK



Research Propositions

Based on above theoretical support and conceptual framework this study proposed the following research preposition.

RP1: There is a significant positive relationship between human capital and operational capabilities.

RP2: There is a significant positive relationship between operational capabilities and organizational performance.

RP3: Operational capabilities mediate the relationship between human capital and organizational performance.

4. DISCUSSION, CONCLUSION AND FUTURE RECOMMENDATION

The main objective of present study was to highlight the relationship between the human capital and operational capabilities while predicting organizational performance. Further, this study highlighted the mediating potential of operational capabilities between the human capital and organizational performance. Present study fills the gap in the literature by proposing that resources without capabilities are incomplete. Resources particularly human capital without the operational capabilities is not enough for the organization to generate significant output. Human capital affects the operational capabilities which further impact on

organizational performance. Therefore, in order to generalize the study conceptual framework should be empirically tested across different industries and countries. Furthermore, numerous different organizational resources should be identified that strengthen the operational capabilities of an organization. In addition to this role of external business environment should also be examined while study the link between knowledge resources and operational capabilities. As turbulent business environment can deteriorate the relationship of organization knowledge resources with operational capabilities and organizational performance. Therefore, in extremely unstable business environment knowledge resources should be studied with the dynamic capabilities as these capabilities provide dynamic improvement rather than continuous improvement.

REFERENCES

- Andersén, J. (2011). Strategic resources and firm performance. *Management Decision*, 49(1), 87-98.
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of management*, 17(1), 99-120.
- Barney, J. B., & Clark, D. N. (2007). *Resource-based theory: Creating and sustaining competitive advantage*. Oxford University Press on Demand.
- Bessant, J., Caffyn, S., & Gallagher M. (2001). An evolutionary model of continuous improvement behaviour. *Technovation*, 21(2), 67 – 77.
- Campbell, B. A., Coff, R., & Kryscynski, D. (2012). Rethinking sustained competitive advantage from human capital. *Academy of Management Review*, 37(3), 376-395.
- Ceylan, C. (2013). Commitment-based HR practices, different types of innovation activities and firm innovation performance. *The International Journal of Human Resource Management*, 24(1), 208-226.
- Chiang, C. F., & Hsieh, T. S. (2012). The impacts of perceived organizational support and psychological empowerment on job performance: The mediating effects of organizational citizenship behavior. *International Journal of Hospitality Management*, 31(1), 180-190.
- Coleman, J. S. (1988). Social capital in the creation of human capital. *American journal of sociology*, 94, S95-S120.
- Conner, K. R. (1991). A historical comparison of resource-based theory and five schools of thought within industrial organization economics: do we have a new theory of the firm?. *Journal of management*, 17(1), 121-154.
- Crook, T. R., Todd, S. Y., Combs, J. G., Woehr, D. J., & Ketchen Jr, D. J. (2011). Does human capital matter? A meta-analysis of the relationship between human capital and firm performance.
- Dangol, R. (2012). Linking dynamic capabilities, operational capabilities and firm resources to performance.
- Dangol, R., & Kos, A. (2014). Knightian uncertainty and risk: A basis for untangling dynamic capabilities from operational capabilities. *Journal of Strategy and Management*, 7(4), 337-353.
- Devaraj, S., & Kohli, R. (2003). Performance impacts of information technology: Is actual usage the missing link?. *Management science*, 49(3), 273-289.
- Farouk, S., Abu Elanain, H. M., Obeidat, S. M., & Al-Nahyan, M. (2016). HRM practices and organizational performance in the UAE banking sector: The mediating role of organizational innovation. *International Journal of Productivity and Performance Management*, 65(6), 773-791.
- Felin, T., & Hesterly, W. S. (2007). The knowledge-based view, nested heterogeneity, and new value creation: Philosophical considerations on the locus of knowledge. *Academy of Management Review*, 32(1), 195-218
- Gray, J. (1987). The economic approach to human behavior: its prospects and limitations. *Economic Imperialism: The Economic Approach Applied Outside the Field of Economics*, 33-49.
- Hang Chan, K. (2009). Impact of intellectual capital on organisational performance: An empirical study of companies in the Hang Seng Index (Part 1). *The Learning Organization*, 16(1), 4-21.

- Hassan, S., & Hassan, M. (2015). Testing the Mediating Role of Perceived Organizational Support between Leadership Styles, Organizational Justice and Employees' Behavioral Outcomes. *Pakistan Journal of Commerce and Social Sciences*, 9(1), 131-158
- Helfat, C.E., & Winter, S.G. (2011). Untangling Dynamic and Operational Capabilities: Strategy for the (N)ever-Changing World. *Strategic Management Journal*, 32, 1243-1250.
- Hitt, M. A., Jackson, S. E., Carmona, S., Bierman, L., Shalley, C. E., & Wright, M. (2017). *The Oxford Handbook of Strategy Implementation*. Oxford University Press.
- Hitt, M. A., Xu, K., & Carnes, C. M. (2016). Resource based theory in operations management research. *Journal of Operations Management*, 41, 77-94.
- Huang, Y. C., Jim Wu, Y. C., & Rahman, S. (2012). The task environment, resource commitment and reverse logistics performance: evidence from the Taiwanese high-tech sector. *Production Planning & Control*, 23(10-11), 851-863.
- Jinhui Wu, S., Melnyk, S. A., & Swink, M. (2012). An empirical investigation of the combinatorial nature of operational practices and operational capabilities: compensatory or additive?. *International Journal of Operations & Production Management*, 32(2), 121-155
- Joshi, M., Cahill, D., Sidhu, J., & Kansal, M. (2013). Intellectual capital and financial performance: an evaluation of the Australian financial sector. *Journal of intellectual capital*, 14(2), 264-285.
- Kim, T. T., Kim, W. G., Park, S. S. S., Lee, G., & Jee, B. (2012). Intellectual Capital and Business Performance: What Structural Relationships Do They Have in Upper Upscale Hotels?. *International Journal of Tourism Research*, 14(4), 391-408.
- Krasnikov, A., & Jayachandran, S. (2008). The relative impact of marketing, research-and-development, and operations capabilities on firm performance. *Journal of marketing*, 72(4), 1-11.
- Lee, J. Y., Swink, M., & Pandejpong, T. (2011). The roles of worker expertise, information sharing quality, and psychological safety in manufacturing process innovation: An intellectual capital perspective. *Production and Operations Management*, 20(4), 556-570.
- McMahan, G. C., Virick, M., & Wright, P. M. (1999). Alternative theoretical perspectives for strategic human resource management revisited: Progress, problems, and prospects. *Research in personnel and human resource management*, 4(99), 122.
- Nerkar, A., & Roberts, P. W. (2004). Technological and product market experience and the success of new product introductions in the pharmaceutical industry. *Strategic Management Journal*, 25(8 9), 779-799.
- Pavlou, P. A., & El Sawy, O. A. (2011). Understanding the elusive black box of dynamic capabilities. *Decision Sciences*, 42(1), 239-273.
- Ployhart, R. E., & Moliterno, T. P. (2011). Emergence of the human capital resource: A multilevel model. *Academy of Management Review*, 36(1), 127-150.
- Ployhart, R. E., Nyberg, A. J., Reilly, G., & Maltarich, M. A. (2014). Human capital is dead; long live human capital resources!. *Journal of Management*, 40(2), 371-398.
- Prašnikar, J., Lisjak, M., Buhovac, A. R., & Štemberger, M. (2008). Identifying and exploiting the inter relationships between technological and marketing capabilities. *Long Range Planning*, 41(5), 530-554.
- Priem, R. L., & Bulter, J. E. (2001) Is the resource-based view' a useful perspective for strategic management research? *Academy of Management Review*, 26 (1), 22-40.
- ROOS, G. & ROOS, J.1997. Measuring your Company's Intellectual Performance. *Long Range Planning*, 30, 413-426.
- Sethi, R., Smith, D. C., & Park, W. (2001). Cross-functional product development teams, creativity, and the innovativeness of new consumer products. *Journal of Marketing Research*, 38(1), 73-85.
- Sirmon, D. G., Hitt, M. A., & Ireland, R. D. (2007). Managing firm resources in dynamic environments to create value: Looking inside the black box. *Academy of management review*, 32(1), 273-292.

- Song, Michael., Bij, Hans., and Weggeman, Mathieu., (2005). Determinants of the Level of Knowledge Application: A Knowledge-Based and Information-Processing Perspective. *Journal of Product Innovation Management* 2005;22:430–444.
- Spanos, Y. E., & Lioukas, S. (2001). An examination into the causal logic of rent generation: contrasting Porter's competitive strategy framework and the resource-based perspective. *Strategic Management Journal*, 22, 907–934.
- Sujchaphong, P. (2013). Individual Human Capital And Performance: An Empirical Study In Thailand.
- Wilden, R., & Gudergan, S. P. (2015). The impact of dynamic capabilities on operational marketing and technological capabilities: investigating the role of environmental turbulence. *Journal of the Academy of Marketing Science*, 43(2), 181–199.
- Winter, S. (2003). Understanding Dynamic Capabilities. *Strategic Management Journal*, 24, 991–995.
- Wright, P. M., & McMahan, G. C. (2011) Exploring human capital: Putting “Human” back into strategic human resource management. *Human Resource Management Journal*, 21 (2), 93-104.
- Wright, P. M., & McMahan, G. C. (2011) Exploring human capital: Putting “Human” back into strategic human resource management. *Human Resource Management Journal*, 21 (2), 93-104.
- Wright, P. M., Coff, R., & Moliterno, T. P. (2014). Strategic human capital: Crossing the great divide. *Journal of Management*, 40(2), 353-370.
- Yen, Y. F. (2013). The impact of bank's human capital on organizational performance: how innovation influences performance. *Innovation*, 15(1), 112-127.