

## Human Capital as Competitive Advantage: Empirical Evidence from Entities of Pakistan

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### Abstract

**Purpose of the study:** Human capital's important role for Competitive advantage has a higher degree to achieve success, prosperity, goodwill, and spirit of competition for any company. The purpose of the study is to find out and explain the relationship between human capital and competitive advantage and to identify the impact of human capital on competitive advantage among firms in Pakistan.

**Methodology:** According to the variables of the study, we collected the data by using different methods. First, collect data by doing surveys and conduct interviews on human capital and competitive advantage. The second method is to create a questionnaire and distribute the questionnaire among the selected sample. The model used in this study is Regression, Factor, and reliability analysis that tells the relationship between two or more than two variables. The dependent variable in this study is a competitive advantage and the independent variable is human capital. Randomly selected the sample of 50 persons either work in the business sector or a business student.

**Main Findings:** From results and discussion, it is concluded that Human capital asset has a strong impact on competitive advantage and create excellence for the company. Creation of competitive advantage through human capital asset bring organizational sustainability and continued success for the company. Competitive advantage based on human capital assets brings innovation and sustainability to the company's work. Also, create a distinction in work.

**Application of this study:** This study contributes toward the financial sector for policymakers in order to construct the best capital configuration of the firm. This study also suggests which element is having more importance while making the capital configuration of the firm.

**Originality of this study:** Capital structure is a crucial issue for entrepreneurs and CEOs of any firm. A number of studies are available related to other industries but fewer studies are available related to the textile firms of Pakistan so this research work provides the technique while making the best capital configuration for textile firms of Pakistan.

**Keywords:** Human Capital, Competitive Advantage, Factor and reliability analysis, Regression, and Firms of Pakistan.

### 1. INTRODUCTION

Today, competition among markets, firms and organizations of same country or different countries exist. In this competitive era, build sustainable competitive environment or advantage is quite difficult and important for an organization. To get competitive advantage for an organization, different strategies and assets of firm used. Among all assets, some companies adopt human capital asset to get sustainability for company.

When a company took human capital for achieving competitive advantage, company must check that all the employees work in the company have enough knowledge, capability, values and teaching about work. So, they work at best level and achieve goals of firms by facing difficult challenges.

When a company select human capital for competitive advantage then the company take it as challenge because after this, human capital bring advantages or disadvantages for company in future decisions. Changing trends with competitive advantage day by day bring complexity for organizations but sometimes these difficulties carried out chances and opportunities for firms (Barney and Wright 1998).

Selection of human capital for competitive advantage and check and balance with human capital asset are two different things to perform. Competitors of every firm wants best persons as employees and evaluate them with changing trends (Yazdani 2008).

The performance of company effected by the human capital decisions took by human resource management. If decision are in favor of company, it become their competitive edge (Peters, Waterman et al. 1982).

Get competitive advantage and sustain it are two important task that a company perform for better working of organization. Human capital push a firm towards prosperity, growth and achievements. Learning and knowledge of a person are the best tool for getting competitive advantage. So selection of human capital asset for competitive advantage proves a wealthy decision (Grant 1996).

Human capital important role for Competitive advantage has higher degree to achieve success, prosperity, good swill and spirit of competition for company. Through the knowledge, skills and performance of human being as employee bring a quality of leadership in firm other than competitive advantage.

## 2. DEFINITIONS OF VARIABLES INVOLVED IN STUDY

Here, we define some variables that are important and commonly used in this study.

### Competitive Advantage

Competencies and capabilities of a firm through which a firm reach at distinct position and competitors never reach at that level but when they perform better from that firm.

### Human Capital

When firms wants to update its resources for fastest progress in productivity and competitive advantage, an important tool used that is human capital (Schuler, Dowling et al. 1993).

When specific or chosen group of workers of a firm solved problems regarding firm by their competencies, learning and knowledge referred as human capital.

### Research Question

- At what level funding in human capital proves beneficial for organization?
- Is there any important role of human capital exist in competitive advantage?
- Does future decisions of firm effect by competitive advantage gained through human capital?
- Does competency, skill and knowledge of an employee effect competitive advantage?
- Does with the enhancement and increase in human capital bring innovation in firm?

### Objectives Of The Study

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- Find out and explain relation between human capital and competitive advantage.
- Identify the impact of human capital on competitive advantage.
- Check the sustainability of a competitive advantage of firm effected by human capital
- Identify proper intellectual skills of employees for gaining competitive advantage.
- Determine that people and their knowledge are the only way to get competitive advantage.

## 3. LITERATURE REVIEW

Human capital basically give importance to employees and organization. (Garavan, Morley et al. 2001) said that human capital has four features by which it proves best asset for competitive advantage and those features includes adaptability, employees' capability, bring innovation in organization and individual loyalty for firm.

When company wants a flow in firm's growth, in its flourishing and development, also in creativity, company create a path of mechanism that is totally dependent on members of competitive advantage. By adopting these elements and

members, firm will get its stable and non-substitutable competitive advantage (Cham 2004). Assets of company proves precious resources and they increase efficiency and effectiveness of a company strategies (Barney and Tyler 1991). To give privilege to employees, many companies uses external employees temporarily other than internal employees because human capital or human resource (an asset) made or finish the company's decision. And decisions about assets sometimes become competitive advantage (Miles and Snow 1984).

Investment which is done on enhancement of human skills increase productivity of company (Becker 1964). Human capital is a resource that maintain a company's competitive advantage because it is rare, not beatable by rivals and not easily substitute by others (Wernerfelt 1984). Most of the time sustained competitive advantage got by a firm from its internal assets especially from human resource (Ricardo 1817), (Penrose 1971). To gain competitive advantage, company must focused to generate such jobs that is different from human skills (Taylor 1998). When labor got the job that demand same skills that a labor has, it bring homogenous human asset and it proves no value for firm because labor skills cannot improve in this situation (Hashimoto 1981), (Mangan 1983). A company competitive skills increase with the increasing skills and qualities of members of that firm. And it is proved that human resource is pond that gives company its competitive advantage (McKelvey).

When labor got the job that demand different skills from labors skills then it create heterogeneous human asset and it argues that value can create from this. When skills improved, competitive advantage build (Steffy and Maurer 1988). Directors of firms build stable competitive advantage through human resource and company investments increase internally means as capital and externally through this (Cronshaw and Alexander 1991). Investment that is done in human resource or human capital means a company create a rare and sustainable competitive advantage (Dierickx and Cool 1989).

Companies who want to create a competitive advantage that is quite rare and stable from rivals buy human asset (a potential asset) to increase their revenues for future time periods (Flamholtz, Das et al. 1985). It is duty of the firm that it build a linkage between human resource assets based competitive advantage and its stability in firm (Cseh, B. Davis et al. 2013). Competitors or rivals of any firm want to build human capital by giving jobs to best people and filter that human factor. When a creative team build then, it has capability to build competitive advantage (Brown, Hawkins et al. 2007). Company performance is influenced by people who work in it and firm then manage them to create potential point from this (Peter and Waterman 1982). The basic goal of human resource management is to build sustainable advantage from its precious and most important assets and that is labor or people (Luthans, Luthans et al. 2004).

To gain competitive advantage by human resource made a company to face problems related to local, regional and international organization (Manyika, Chui et al. 2011). Through human capital, a company gain competitive advantage that provide a way to company to explore new opportunities to achieve better performance in future and company wants to continue it (Thomas 2014). Competitive advantage effect many researches and researchers of company because it impacts all departments and areas of organization. It increase productivity and bring success for company (Al-Jammal, Al-Khasawneh et al. 2015).

If organization select human resource, an asset to build competitive advantage, then company has potential to capitalizing on human resource to gain and sustain competitive advantage (Schuler and MacMillan 1984). It is argued that competitive advantage gained through human resource ensure a company that all individuals in company have highest abilities to sustain that competitive advantage (Jones and Wright 1992).

To build competitive advantage, human resource asset is best. Human capital has potential to extent candidates of human resource means increase employees by giving bonuses, rewards, better communication system with employees, and introduce training programs etc. It give encouragement to employees and they take interest in firm and firm gain sustained competitive advantage. Also called Scanlon plan (Schuler and MacMillan 1984).

#### 4. RESEARCH METHODOLOGY

##### Model Used in The Study

The model used in this study is Regression, Factor and reliability analysis that tell the relationship between two or more than two variables. Two types of variables involved in every study and through regression we find out the relation between these two variables.

- Dependent variables
- Independent variables

Dependent variable in this study is competitive advantage and independent variable is human capital.

##### Hypothesis of The Study

Basic hypothesis are:

H0 = Human capital do not have any strong impact on achieving competitive advantage.

H0 is an identity matrix

H1 = Human capital have strong impact on achieving competitive advantage.

H1 is not an identity matrix

**Population of The Study**

We collect the data about the variables involve in this study. For this purpose took population of 350 employees work in different business sectors and also took 50 plus students who study business subjects. So total element of population are 400.

**Sample of The Study**

We randomly select the sample of 50 persons either work in business sector or a business student. Each person of the sample is termed as case.

**Method to Collect The Data**

According to variables of the study, we collect the data by using different methods. First, collect data by doing surveys and conduct interviews on human capital and competitive advantage. Second method is to create a questionnaire and distribute the questionnaire among selected sample. Another method is through online forms based on google mails. Questionnaire build by including important questions related to topic or study to know about variables and their relationship. A scale is used for questionnaire that we follow in our study. The scale is, strongly agree, agree, neutral, disagree, and strongly disagree.

After collection of data, we use statistical package for social sciences (SPSS) and interpret our result.

**5. RESULTS AND DISCUSSION**

*Table 1*

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.601 <sup>a</sup>	.361	.360	.50201
a. Predictors: (Constant), Human_Capital				

Source: Author’s self-calculation

R-value tells about correlation between independent variable and dependent variable. Here, R-value is 0.601 or 60.1% which shows that independent variable (human capital asset) and dependent variable (competitive advantage) are positively correlated. 60.81% shows a high (not higher) degree of correlation between these two variables.

R-square tells us that how much variation occur in dependent variable due to independent variable. Here, independent variable is human capital asset and dependent variable is competitive advantage. R2 is 0.361 or 36.1%. It shows that due to human capital asset, 36.1% change or variation will occur in dependent variable (competitive advantage).

The original or actual variation that should be occur in dependent variable due to independent variable. Adjusted R-square is 0.360 or 36.0%. It means that original variation should be 36% in competitive advantage due to human capital asset rather than 36%.

*Table 2*

Co-efficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.857	.083		10.388	.000
	Human_Capital	.645	.040	.601	16.003	.000

a. Dependent Variable: Competitive\_advantage

Source: Author’s self-calculation

Constant also called intercept. Constant or intercept means when X or independent variable (human capital asset) is zero, there is some value of Y or dependent variable (competitive advantage). Here, intercept value is 0.857. It means that when human capital is zero, competitive advantage has the value of 0.857.

In co-efficient table, independent variable (human capital) has a value of 0.645. It means that if we increase one unit of independent variable (human capital), 0.645 or 64.5% increase occur in competitive advantage (independent variable), which is quite significant.

T-value should be greater than or equal to 2. Here, t value is 16.003 which is greater than 2. It means results are significant.

P-value is actual level of error that is drawn or came out with result. Here, P-value is 0.000. Level of significance is also level of error that usually set by the researcher. Level of significance is 5%. P-value (0.000) is less than 1% (0.01), 5% (0.05), and 10% (0.10). So, results are significant at 90%, 95%, and 99% confidence intervals.

**Table 3**

<b>Reliability Statistics</b>		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.873	.873	16

Source: Author's self-calculation

Researcher can use reliability analysis is when two observations under study that are equivalent to each other in terms of the construct being measured also have the equivalent outcome.

The alpha coefficient for the 16 items is .873, suggesting that the items have relatively high internal consistency.

**Table 4**

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.857
Bartlett's Test of Sphericity	Approx. Chi-Square	2425.976
	Df	120
	Sig.	.000

Source: Author's self-calculation

This table tells that your table is enough, required or reliable for factor analysis or not. Also tells us the sample size of your research is accurate reliable or not. It should be 0.5 or more than 0.5. If it is less than 0.5 then you should increase your sample size or increase your variable. 0.5 to 0.7 is middle, 0.7 to 0.8 is good, 0.8 to 0.9 is great and if your result is more than 0.9 then it will be super

In our research it is 0.857 which is between 0.8 to 0.9, It means it is great our sample size and all variables are reliable In KMO and Bartlett's our P-Value is 0.000 which is less than 0.5 it means it is significant.

In this research we rejected H0 (null hypothesis) and accepted H1 because it is not an identity matrix.

**Table 5**

<b>Communalities</b>		
	Initial	Extraction
1. To build competitive advantage, human capital asset is best.	1.000	.538
2. Human capital asset has strong impact on competitive advantage.	1.000	.564
3. Human capital asset of an organization is an investment for competitive advantage.	1.000	.496
4. Organization sustainability and continuity of success create through human capital asset.	1.000	.420
5. Competitive advantage gain when company focus on learning of employees.	1.000	.360
6. Employees capability bring innovation in an organization.	1.000	.420
7. Human capital asset for competitive advantage is a risk.	1.000	.629
8. Investment on human capital asset has potential to increase employees.	1.000	.537
9. Human capital asset helps company in future decision making about competitive advantage	1.000	.635
10. Human capital role for competitive advantage has higher degree to achieve success.	1.000	.470
11. Training and development of firm employees take part to attain competitive advantage.	1.000	.576

12. Knowledge, capabilities and values of organization’s employees effect competitive advantage.	1.000	.492
13. Sustainability of competitive advantage through human capital is quite difficult.	1.000	.533
14. Creative teams of an organization build competitive advantage.	1.000	.526
15. Companies achieve new future opportunities by competitive advantage through human capital asset.	1.000	.517
16. Human capital contribute to create distinction in work.	1.000	.580
Extraction Method: Principal Component Analysis.		

Source: Author’s self-calculation

In Table 5 we are going to discuss the common variance in variables, In 1<sup>st</sup> variable its common variance is .538, There is highest common variance is .635 in variable 9, In variable 5 its common variance .360 which is lowest, All others variables are mediocre common variance.

High level is 0.6 above

Mediocre is from 0.4 to 0.6

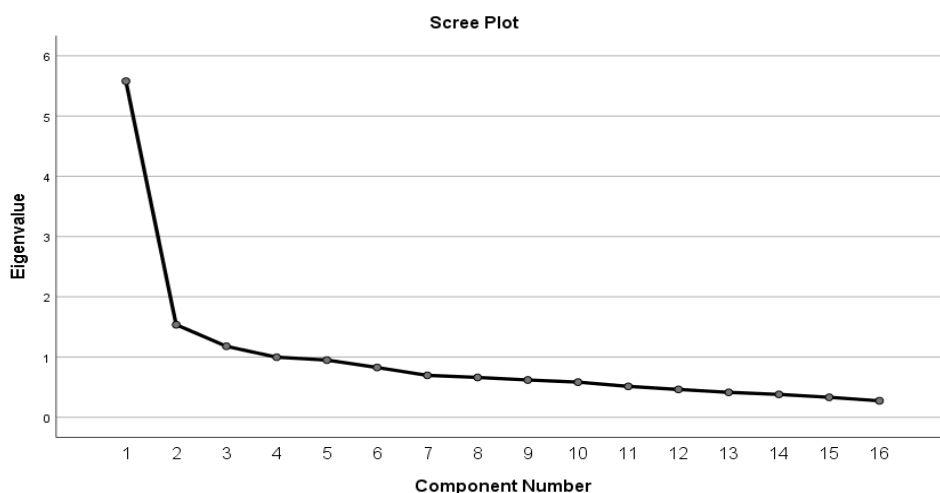
Low is below 0.4

**Table 6 Total Variance Explained**

Component	Initial Eigenvalues	Extraction Sums of Squared Loadings	Rotation Sums of Squared Loadings	%		Cumulative		%	
	Total	% of Variance	Cumulative %	Total	Variance	%	Total	Variance	%
1	5.578	34.864	34.864	5.578	34.864	34.864	3.587	22.416	22.416
2	1.536	9.601	44.465	1.536	9.601	44.465	2.390	14.936	37.352
3	1.178	7.366	51.830	1.178	7.366	51.830	2.317	14.479	51.830
4	.997	6.232	58.062						
5	.949	5.933	63.995						
6	.827	5.168	69.163						
7	.696	4.352	73.516						
8	.662	4.135	77.651						
9	.619	3.869	81.520						
10	.583	3.646	85.166						
11	.513	3.206	88.372						
12	.462	2.888	91.260						
13	.414	2.585	93.845						
14	.379	2.371	96.216						
15	.332	2.075	98.292						
16	.273	1.708	100.000						

Extraction Method: Principal Component Analysis.

In Table 6 , Extraction: The number of rows in this panel of the table correspond to the number of factors retained. In Table 6, three factors be retained, so there are three rows, one for each retained factor. The values in this panel of the table are calculated in the same way as the values in the left panel, except that here the values are based on the common variance. The values in this panel of the table will always be lower than the values in the left panel of the table, because they are based on the common variance, which is always smaller than the total variance. There are 3 variables are representor of all 16 variables, it tells us how much variance and communities they share with others. Rotation tells us the variance between these 3 variables.



The 1<sup>st</sup> 3 variable that we retained are above 1 and others are below than 1, which means that these 3 variables represent all other variables.

**Table 6**

<b>Component Matrix<sup>a</sup></b>			
	Component		
	1	2	3
1. To build competitive advantage, human capital asset is best.	.444		.533
2. Human capital asset has strong impact on competitive advantage.	.544		.444
3. Human capital asset of an organization is an investment for competitive advantage.	.569		
4. Organization sustainability and continuity of success create through human capital asset.	.553		
5. Competitive advantage gain when company focus on learning of employees.	.566		
6. Employees capability bring innovation in an organization.	.447	.457	
7. Human capital asset for competitive advantage is a risk.	.449	.482	-.442
8. Investment on human capital asset has potential to increase employees.	.629		
9. Human capital asset helps company in future decision making about competitive advantage	.684		
10. Human capital role for competitive advantage has higher degree to achieve success.	.650		
11. Training and development of firm employees take part to attain competitive advantage.	.670		
12. Knowledge, capabilities and values of organization's employees effect competitive advantage.	.597		
13. Sustainability of competitive advantage through human capital is quite difficult.	.642		

14. Creative teams of an organization build competitive advantage.	.658		
15. Companies achieve new future opportunities by competitive advantage through human capital asset.	.666		
16. Human capital contribute to create distinction in work.	.594	-.476	
Extraction Method: Principal Component Analysis.			
a. 3 components extracted.			

Source: Author’s self-calculation

In this Table 7, All factors Load on 1st variable, 3 factors load on 2<sup>nd</sup> variable, 3 factors load on 3<sup>rd</sup> variable.

**ACCEPT WHICH HYPOTHESIS?**

From above results, it is concluded that we accept H1 and reject H0

H0 = Null Hypothesis

H1 = Alternative Hypothesis

H1: There is a strong impact of human capital asset on competitive advantage (Accepted).

**6. CONCLUSION**

From results and discussion, it is concluded that Human capital asset has a strong impact on competitive advantage and create excellence for company. Creation of competitive advantage through human capital asset bring organizational sustainability and continuous success for the company. Competitive advantage based on human capital asset bring innovation and sustainability in company’s work. Also create distinction in work.

It is cleared from the research that human capital asset is best to achieve competitive advantage. Human capital asset proves an investment for competitive advantage not a risk. Learning of employees in a firm contributes to gain competitive advantage. Research also suggested that if we do investment on human capital asset, it has potential to increase organization employees.

Training and development of employees take part to attain competitive advantage. It also found that knowledge, capabilities and values of employees have a strong impact on competitive advantage. Sustainability of competitive advantage through human capital is quite a difficult but if company focus is on human capital asset, as being the best asset make it easy.

Competitive advantage gain through human capital asset also help company to do best present and future decisions. Overall, it is conclude that human capital asset has a strong and positive impact on competitive advantage

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