

# **The Study Between Competence And Human Capital: Towards A Competitive Advantage**

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**Abstract:** *This article aims to determine the relationship between competence and human capital towards a competitive advantage. The concept of human capital has been in line with the concept of competence to build human capacities that are beneficial for organization. The concept of competence is directly related to the concept of individual performance, while the concept of human capital related with the concept of the performance of all individuals that exist in the firm, although the same development components such as knowledge, skills and character. By extending the concept of a resource that has value and rare can be used by firms to gain competitive advantage.*

**Keywords:** *competence, human capital, competitive advantage.*

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## **I. Introduction**

Market globalization and competencies push a big change in the lives of the people in the world so that the firm is required to apply the right strategy in order to successfully exploit business opportunities (Kotler, 1992). Development of competency-based human resources is conducted in order to deliver the results in accordance with the goals and objectives of the organization with the performance standards that have been determined. The competency of the individual person must be able to support the implementation of the strategy of the organization and be able to support any changes to management.

Superior competence gives firms the ability to generate and act based on knowledge about the actions and reactions of competitors, which will help to build competitive advantage (Naver and Slater, 1990; Touminen et al., 1997).

Drucker (1995: 278) argued that human as a source of power which is necessary for the organization in the form of skills, knowledge and abilities in working. Identifying and assessing human capital is difficult and complex. skills and abilities of a person can be measured through performance, experience and qualifications.

Competitive advantage can be created through the effective management of human resources by taking into account the internal and external factors of the firm that will be faced. Responding to the development of the external environment both economic development, market, technology, social trends, and social environment, each firm is required to be able to adapt to the environment in order to survive the increasingly competitive business environment.

The premise that in order to achieve sustainable competitive advantage firm need to have both heterogeneity of resources and resource immobility form the basis of the resource-based view of the firm (Peteraf, 1993; Conner, 1991; Barney, 1989; Dierickx and Cool, 1989). Extending on the 'unique' concept resources (Penrose, 1959), resource-based approach sees the firm as a collection of tangible and intangible resources that is used to gain competitive advantage (Barney, 1986, 1989, 1991; Rumelt 1984; Wernerfelt, 1984; Conner, 1991; Peteraf, 1993). Wernerfelt (1984) extending the view of the resources that lead to high returns over the long term.

Resources are defined as attributes of a firm that enables it to implement strategies to achieve competitive advantage (Barney, 1991; Hitt and Ireland 1985) that includes physical, human and organizational resources. Regardless of whether the resources are referred to as strategic resources (Barney, 1986), invisible assets (Itami, 1987), a strategic asset (Dierickx and Cool, 1989), core competencies (Prahalad & Hamel, 1990) or intangible resources (Hall, 1992) the firm must continue to acquire or develop heterogeneous resources to generate economic benefits (Conner, 1991; Barney, 1989; Dierickx and Cool, 1989).

Prahalad and Hamel (1990) combined the concept of 'unique' resources presented by Penrose (1959) and tacit knowledge presented by Nelson and Winter (1982) emphasized that firm achieve competitive advantage by developing their core competencies. A core competency is defined as "collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies."

## **II. Theoretical Study**

**1.1 Competence:** The competitive quality of a business organization is largely determined by the quality of its human resources. Competent human resources is required by a business firm, namely human resources which have specific competencies (include: aspects of the knowledge, skills, attitudes, and behaviors) needed to support the successful implementation of the work.

Prahalad and Hamel (1989) suggested that a successful firm is a firm that focuses on improving competencies, which are used in new and innovative ways to achieve the goals. The main concern of the firm is using its resources in ways that are challenging and creative to build core competencies.

Teece et al. (1997) saw the resource as "firm specific assets, that are difficult, that if it might not be emulated, where competence is resulted from the integration of specific assets of the firm." Competence is the ability and knowledge of the firm that became the basis of problems solving everyday (Henderson and Cockburn, 1994).

Boyatzis (1982:20) stated that the competence of individuals in certain occupations based on the characteristics of the individual (such as motive, nature/ character, skills and aspects related to social roles, or science) which resulted in an effective or superior performance in the works.

Spencer and Spencer (1993: 9-11) stated that competence is the ability characteristic of employees to carry out tasks and work activities were revealed of motives, trait, self-concept, knowledge and skills.

Competence belongs to a concept class that emphasizes fundamental efficiency gains at the firm level and covers the skills, knowledge and capabilities (Teece, Pisano and Shuen, 1997). For example, competence can reduce costs through a better design product and process, increased utilization, the input is reduced, the increase in more efficient production and services.

Competence differentiation grouped into three (Bray et al, 1974; Boyatzis, 1982; Kotter, 1982; Luthans et. al., 1988; Howard and Bray, 1988; Campbell et al, 1970.; Spencer and Spencer, 1993; Goleman, 1998; Goleman et al., 2002) they are:

- Cognitive competencies, such as the willingness to think and the ability to think of something new;
- Emotional intelligence competencies, including self-awareness and self-management competencies, such as emotional self-awareness and emotional self-control; and
- Social intelligence competencies, including social awareness and relationship management competencies, such as empathy and teamwork.

Abraham Carmeli (2003) argued that emotional intelligence adds a positive working attitude; emotional competencies, social and cognitive intelligence to predict the effectiveness of the management and leadership (Boyatzis and Saatcioglu, 2008); emotional competencies, social and cognitive intelligence to predict the effectiveness of the professional, management and leadership roles in various sectors of society (Boyatzis, 2008).

### **1.2 Human Capital**

The concept of human capital appears, due to the shift in the role of human resources. The concept of human capital that human are not only resource but are capital which resulted in the return and any expenditure made in order to develop the quality and quantity of capital is an investment activity (Becker, 1993).

The concept of human capital are an important thing is needed at the present time, based on:

- The strong competitive pressures of financial and non-financial advantages.
- Recognition of business and political leadership on human capital to increase the performance.
- There was a rapid changes that marked by the processes and new technologies that will not last long if the competitor is able to adopt the same technology.
- To grow and adapt, organizational leadership must recognize the value and contribution of man.

The concept of human capital has become an important concept in the application of the concept of management talent that aims to attract, retain, develop and maintain human beings who are in the organization. In the opinion of Stephens (2010) management talent as an effort to build a "bridge" for organization that can help to realize the long-term growth plan and also help achieve success winning the competition in the global business world. The concept of human capital that considers employees as the company's assets will be able to walk in the same direction and complement each other with the concept of management talent.

Bontis et.al (1999) defined human capital as the human factor in the organization which includes intelligence, skills and human expertise that gives a distinctive character to the organization. This definition shows that the definition of human capital is more than just a property or asset because human capital is the human factor that can shape the character of the organization.

Barney (1991) stated "human capital includes training, experience, judgment, intelligence, relationships, and insight of individual managers and workers in a company". Human capital is often referred to in the literature as an important source of resource-based and clearly has been accepted as a resource that can lead to competitive advantage (Barney, 1986; 1991; Barney and Wright, 1998; Dierickx and Cool, 1989; Penrose, 1955; Wernerfelt, 1984).

Resource-based view of strategic management believes that superior firm performance can be attributed to a business with superior sources. These sources must be valuable and rare (Barney, 1991); they must be hard to be duplicated or replaced by another company (Barney, 1991; Peteraf, 1993). The firm must manage, adjust, and put them on market for the product can create value (Mahoney, 1995; Sirmon, Hitt, Ireland and 2007).

Lepak and Snell (1999) argued that: "Value of human capital is inherently depend on the potential to contribute to competitive advantage or core competency of the company." Value of human capital has been touted by many researchers (Carmeli and Tishler, 2004; Dencker, Gruber, and Shah, 2009; Hatch and Dyer, 2004; Hitt, Bierman, Uhlenbruck, & Shimizu, 2006; Pennings, Kyungmook, & van Witteloostuijn, 1998) and has been frequently cited as a source of competitive advantage (Barney, 1986; 1991; Dierickx and Cool, 1989; Penrose, 1955; Wernerfelt, 1984).

Human capital development is a tool for the organization to develop skill and competency. Human capital has been considered as a whole, the absolute value (Subramaniam and Youndt, 2005), or as a variable with two dimensions, value and uniqueness of knowledge (Lepak and Snell, 1999).

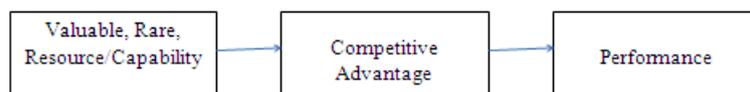
### 1.3 Competitive Advantage

Firm resource covers all assets, capabilities, organizational processes, firm attributes, information, knowledge, and so on which are controlled by a firm which enables the firm to execute a strategy to improve the efficiency and effectiveness (Daft, 1983). In traditional strategic analysis, firm resource is the power that can be used to formulate and implement strategies (Learned, Christensen, Andrews, and Guth, 1969; Porter, 1981).

Barney (1986, 1991) and other researchers (Amit and Schoemaker, 1993; Collis and Montgomery, 1995; Peteraf, 1993) and then develop specific criteria for 'strategic' resource which allows the firm to grow a strategy that helps to produce and maintain a competitive advantage. To gain competitive advantage, companies must have the resources that have the valuable and rare attributes.

Porter (1985) stated that activities in the firm is a potential source of competitive advantage. Peteraf and Barney (2003) stated that competitive advantage acquired by the firm through creating greater economic value than its competitors.

Barney (1991) stated that the firm that owns and utilize the valuable and rare resources and capabilities will achieve a competitive advantage.



**Figure 1:** Conceptual model of Barney (1991)

The researchers say that the economic value is generally made with the products and / or services to the benefit of the larger one with the same cost as compared to competitors (i.e., differentiation-based competitive advantage) or the same benefits at a lower cost compared to competitors (i.e., efficiency-based competitive advantage). Because of the superior benefits tend to increase customer loyalty and quality of perception (Zou, Fang, and Zhao, 2003).

### 1.4 Relationship of competencies, human capital and competitive advantage

Development of competency-based human resources conducted in order to provide the results in accordance with the goals and objectives of the organization with the stated performance standards. Competence regarding the authority of each individual to perform a task or take a decision in accordance with his role in the organization which are relevant to the skills, knowledge and capabilities. Competence of individual employees should be able to support the implementation of the strategy of the organization and be able to support any changes to management.

Conceptualization of competence and human capital are defined as a combination of knowledge and skills of the work of people in a firm (Nahapiet and Ghoshal, 1998; Subramaniam and Youndt, 2005; Lepak and Snell, 1999; Wright and McMahan, 2011). The concept of human capital in line with the concept of competence, i.e. each of them aims to build human capacity that is beneficial to the organization. The difference is the concept of competence is directly linked with the concept of individual performance and every component that form competence. Knowledge, skills, and character is a component that directly contribute to the performance of

the individual. While the concept of human capital human resources development focused on developing a total capacity of individuals whose direction is explicitly linked to the performance of individuals in the firm, although the same development components, namely: knowledge, skills and character.

Atri Sengupta, D.N. Venkatesh, Arun K. Sinha (2013) stated the existing the model of competencies and offer a comprehensive performance related competence models to maintain a competitive advantage. Strategic human resource management or human capital gains competitive advantage through one of the most important assets (Richard.W 2001).

### **III. Conclusion**

Human resource management based on competence is one of business management strategy application in order to create a competitive advantage. Business organization views human resources as human capital are strategic asset because its have advantages than the assets of another firm such as physical capital and organizational capital to drive the existence of the organization in competitive business environment.

The firm with the valuable and rare human capital will produce greater competitive advantage have compared to its competitors (Barney, 1991). Competitive advantage result from firm is a consequence of its specific resources and competencies.

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