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An Empirical Investigation of Impact of Acquisition HR Configuration on Human Capital Development

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Abstract- The purpose of this research which yielded more than 466 respondents was to identify the HR practices and policies followed by some of Indian IT organisations in attracting and acquiring the required talent to strengthen the human capital pool of that organisation. The research is carried out primarily on the basis of field survey and designed to study and analyse the extent to which acquisition HR practices and procedure practised in various Indian IT organisations are boosting development of human capital of that particular industry. The specific purpose of the research is to analyse and dissect the corporate capability to manage human capital - the ability to attract, develop and retain talent and to create differentiated workforce strategy and found that acquisition HR configuration creates idiosyncrasies in hiring and maintaining human capital of the concerned organisations and has significant contributions for the development of the human capital.

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An Empirical Investigation of Impact of Acquisition HR Configuration on Human Capital Development

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Abstract- The purpose of this research which yielded more than 466 respondents was to identify the HR practices and policies followed by some of Indian IT organisations in attracting and acquiring the required talent to strengthen the human capital pool of that organisation. The research is carried out primarily on the basis of field survey and designed to study and analyse the extent to which acquisition HR practices and procedure practised in various Indian IT organisations are boosting development of human capital of that particular industry. The specific purpose of the research is to analyse and dissect the corporate capability to manage human capital - the ability to attract, develop and retain talent and to create differentiated workforce strategy and found that acquisition HR configuration creates idiosyncrasies in hiring and maintaining human capital of the concerned organisations and has significant contributions for the development of the human capital.

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I. INTRODUCTION

HR configurations facilitate flow of knowledge, which leads to sustainable competitive advantage. HR is always on the front line in developing the knowledge base in the organisation. HR practices have a central importance in knowledge intensive industries because they have immediate effect on the organisation's key resource, its stock of intellectual talent. HR practices are especially important in attracting, retaining and developing the skills and knowledge of employees. With the advent of so called knowledge society the rhetoric of management has shifted its focus from manpower to brainpower. In an age of mind crafting, knowledge workers constitute as valuable capital. Liberated from the constraints of dusty hierarchies and mechanised production lines, the employees in the knowledge society has come to be construed an empowered knowledge creators, owner of the most strategic resource, knowledge. Hence management, measurement and control of such resources has become a source of managerial action. The idea of knowledge in the form of human capability or human

resources is the key in driving organisational performance and success in modern learning organisations. They are value creators and value adders whose major contributors came from their abilities to process and apply knowledge and information to completing tasks, making decisions and solving problems. With this backdrop the study aims at probing into HR architecture of a knowledge intensive sector of Indian economy, IT sector where the particular challenge the sector facing is the 'talent war'. This creates and necessitates a need to devise certain HR practices to retain the organisations key employees and develop their skills to match the ever changing need of the software industry. Hence the in a highly competitive industry like IT industry, HR practices must be deliberately chosen and used strategically to maintain strong organisational boundaries; to promote high levels of organisational and professional identity and to encourage the retention of staff. The research work probe into the HR architecture of few selected Indian IT organisations and proposition of the study is , An acquisition HR configuration, comprised of selective staffing, competitive and equitable compensation, and employee ownership is positively and significantly related to an organisations level of human capital.

II. OBJECTIVES & METHODOLOGY

The study is carried out primarily on the basis of field survey. A broad group of Indian IT organisations are taken deliberately because the IT sector is experiencing highest rate of turn over worldwide. Talent management and retention is one of the major issues of the industry. The research is intended to study the HR architecture of some of the selected IT organisations to and to examine how the Acquisition HR configurations attract, acquire and maintain the firm specific talent facilitate the development of human capital of the IT industry.

A stratified random technique has been adopted to select the respondents for the study. 844 respondents were selected randomly from lower, middle organisation out of which 466 responses were used for and upper levels management of the Indian IT the study. A seven items questionnaire was developed

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to measure Acquisition HR configurations of the organisations under study and strength of human capital are measured by a questionnaire consisting of five items. Then both the instrument under study has undergone a pilot testing to test the reliability of the instrument. Following hypothesis was formulated and tested under the research work. A simple regression model was designed to find out the relationship between acquisition HR architecture and human capital.

$$Y = \beta_0 + \beta_1 Z_1 + \beta_2 Z_2 + \dots + \beta_n Z_n + \epsilon$$

Y ($Y_1, Y_2, \dots, Y_n$) are Dependent variables

$\beta_0, \beta_1, \beta_2, \dots, \beta_n$ are unknown parameters

$Z_1, Z_2, \dots, Z_n$ are independent variables

ϵ ($\epsilon_1, \epsilon_2, \dots, \epsilon_n$) are error terms

HYPOTHESIS: An acquisition HR configuration, AHRC (comprised of selective staffing, competitive and equitable compensation, and employee ownership) is positively and significantly co-related to an organisations level of human capital (OHC).

OHC is is f (AHRC₁, AHRC₂AHRC₇)

III. REVIEW OF LITERATURE

1) *HR & Human Capital*

As human capital refers to individual's knowledge, skills, and expertise, the concept is of paramount importance in any discussion of intellectual capital. Knowledge intensive firms place most importance on human capital as opposed to physical or financial capital. In a knowledge economy people is considered as revenue creators rather than costs. Knowledge of people's competence is sources of wealth creation. Human capital is valuable to the extent that it contributes to a firm's competitive advantage by improving efficiency and effectiveness, exploiting opportunities or neutralising threat (Barney, 1991; Lado, Lloyd and Wright, 1992). They are the only assets that appreciate with use. Human capital is the ability of the employees to do things that ultimately make the company work and succeed. Human capital begins with human resources in the form of knowledge and skills embodied in people. The human resources of a company act as a surrogate indicator of its competence and credibility affecting the ability to attract and develop other types of resources and capabilities needed in the innovation, development and growth process (Bartel and Lichtenberg, 1987; Florin et al 2003; Pennings et al 1998).

Hambrick and Mason (1984) suggested that organisations are reflection of their top managers. Building on this work, Finkelstein and Hambrick (1996) argued the importance of human element in strategic choice and firm performance. In fact, managers in particular represent a unique organisational resource (Daily, Certo and Dalton, 2000). The human element has grown in importance because knowledge has become a critical ingredient to gain a competitive advantage,

particularly in the new economy landscape (Grant & Spender, 1996). Carly Fiorina, CEO of Hewlett-Packard, emphasised this point "The most magical and tangible and ultimately the most important ingredient in the transformed landscape is people.

The literature on organisational learning, for example points out organisations, in and of themselves, do not create knowledge, people do (Argyris and Schon, 1978). Knowledge is created by individuals. An organisation can not create knowledge on its own without individuals. Individual learning is prerequisite for organisational learning (Kim, 1993). Individual learning occurs simply by virtue of being human. As individuals learn, they increase their human capital and create knowledge that potentially forms a foundation for organisational level learning and knowledge accumulation. Knowledge stocks provide a foundation for understanding the role of human capital as a potential source of firm's core competencies (Grant & Spender, 1996). Managing people based on their human capital will allow an organisation to optimize knowledge creation- whether of new product ideas and services or of improvements in business processes (Hitt, Bierman, Shmizu and Kochhar, 2001, Lepak and Snell, 1999). Researchers have examined that, variations in HR practices is accompanied by differences in employment system as well as differences of human capital (Lepak and Snell, 1999; Kochhar et al, 2001). Through a series of unique HR practices firms may have access to valuable human resources that provide a source of competitive advantage (Colbert, 2004; Ray et al, 2004).

Human capital theorists have typically argued that organisations can increase their human capital by internally developing the knowledge and skills of their current employees and by attracting individuals with high knowledge and skill levels from the external labour market. That is, organisations can try to make and buy human capital. Human capital grows in two ways; when the organisation uses more of what people know and when more people know more of what is useful to the organisation (Stewart, 1997). Organisation exists for a purpose and is a deliberate arrangement of human and other resources with the aim of delivering needs, satisfying services and products as effectively and efficiently as possible, which ultimately needs optimal workforce planning.

2) *Acquisition Configuration & Human Capital*

Acquisition HR configuration AHRC, Thomas Davenport defines human capital as encompassing knowledge, skill and talent. Talent is considered as the driving force behind HR's contribution to organisational success. The article "it is the talent stupid" reinforces the central role of talent in the evolution of HR's impact with the organisation they support (Buckingham and Vosburgh 2001).

As the importance of talent has gone up with the 21st century, the way of recruiting has changed dramatically which ultimately leads to selective staffing. Selective staffing practices are often championed as the foundation of an HR strategy focussed on acquiring human capital. Operationally, selective staffing can be thought of as two distinct search processes one is extensive search and another is intensive search. Extensive search expands the applicant pool by using wide variety of recruiting sources like employee referrals, search firms, universities, employment agencies and increasing the number of candidates screened for hire. Intensive search on the other hand, increases the amount of information gathered about each applicant via interviews, tests, biographical information, etc. As Koch and McGrath (1996) reason, "assuming a sufficiently well - populated labour market from which to choose, firms that take more care in their search, by increasing information at both the extensive and intensive margins, are more likely to be able to access high - quality new employees". This proposition is also supported by existence of labour market imperfection, which speaks "return on human capital differs between different labour market segmentation". Hence if such individuals perform at their best, they must add value to the firm and help differentiate the products or services rendered. So some HR activities and functions may be a source of competitive advantage, whereas others may not. Therefore, it can be well concluded that, acquiring and maintaining highly talented and motivated reservoir of multidisciplinary human resources meet the needs of the organisation and continuously create new opportunities for employees to upgrade their capabilities and channelise their potential leading to organisation success. This proposition is also again supported by the resource based view of the firm that explains variations in firm performance by variations in firm's human resources and capabilities (Hitt, Bierman, Shimizu and Kochhar 2001).

Although an acquisition configuration primarily builds on staffing practices, it is likely to be complemented by compensation and reward systems. To attract the best candidates, companies frequently pay high wages relative to competitors in order to ensure that they meet or exceed market equity. In addition, stock ownership is also espoused to help attract and retain the best and brightest workers. "In order to hold people inside the corporation, we can not really talk about their being employees any more. There has to be some kind of continuity and some sense of belonging". Different long term incentives, such as stock ownership, extensive benefits or knowledge based pay system may be offered to ensure that core employees receive continued and useful feedback and adopt a long term orientation (Snell and Dean, 1992). Such practices

are designed to help firms maintain unique knowledge that leads to strategic advantage (Becker, 1974).

Stewart (1997), for example, pointed out that employee stock ownership programs appear to be increasing in popularity, especially in knowledge – intensive companies because ESOPs, primarily provide an employee benefit directly related to the organisation as it aims towards giving shares to staff members and making them part owners of the employer company. Through the ESOPs employees own the business and it ensures employee roles, rights and responsibilities as owners. No one is more concerned about a company than its owners. According to R Suryanarayana and V Varadarajan "employee stock ownership schemes have caught the imagination of the corporate sector as a concept of reward and motivate employees to attract and retain the best talent and to ensure employees commitment and firm performance". Employee stock ownership plans (ESOPs) and various other ownership sharing tools like employee stock purchase scheme (ESPs) motivate the

workforces of an organisation to think and act like business people and they feel themselves as part owners of the organisation, which ultimately increases human capital pool of the concerned organisation. Many of these companies go public not to raise money for capital expenditures, but rather to share ownership with their most valuable assets – employees.

IV. EMPIRICAL EVIDENCES

1) *Demographic Analysis*

Demographic profiles of the respondents consist of small, medium, and large organisation, where respondents from large organisation constitute almost half of the total population in the study. Female participants in the study was one third where as male participants consisted of two third of the total population. Age- wise distribution depicts 26-34 year age group dominates in the study consisting of more than 50% of the total sample. The respondents having 5-10 years of experience at current organisation is very well present in the study consisting of 51% of the total sample.

2) *Regression Analysis*

The causal relationship between set of variables of Acquisition HR configuration and human capital of the organisations under study are analysed with simple regression analysis ($F_{1,464}=896.155$, $p < 0.0005$. $R^2 = 0.659$, Adjusted $R^2 = 0.658$) and significant variables are shown below:

Predictor Variable	Beta	p
Intercept		
Acquisitions HR Configurations	0.86	0.688
		$p < 0.0005$

Hence the regression equation $HC = 0.69 + 0.86AHRC$ with standard error 0.10 and 0.03 respectively corroborate the hypothesis-1, which depicts an acquisition HR configuration is positively related to an organisations level of human capital.

V. DISCUSSION

The impact of human resource management (HRM) policies and practices on performance of the firm is an important topic in the field of human resource management, industrial relations, and industrial and organisational psychology (Boudreau, 1991; Jones and Wright, 1992, Jeff S. Margulies & Kleiner, 1995). "The use of high performance work practices, including comprehensive employee recruitment and selection procedure, incentive compensation and performance management system, and extensive employee involvement and training, can improve the knowledge, skill and abilities of firm's current and potential employees, increase their motivation, reduce shirking, and enhance retention of quality employees while encouraging non performers to leave the firm. Today, competitive advantage depends on intangible assets especially human capital. People and their efforts are what make one organisation different from its competitors. The ability of the firm to create unique team is the most cost-effective ways to create sustainable advantage (Eric D Brown, 2007). The present study found that the Investment organisations do for attracting and selecting the best and brightest has very significant impact on its human capital.

VI. CONCLUDING REMARKS

The development of human capital; "the knowledge, skills, and capabilities of individuals that have economic value to an organization" (Bohlander & Snell, 2007) is of vital importance in the modern competitive age of the new global economy. According to Bohlander and Snell (2007), to build human capital in organizations, leaders must continually develop superior knowledge, skills, and experience within the workforce by identifying, recruiting, and selecting the "best and brightest talent" for work.

In a modern world, the competitive advantage of an enterprise rest on its employees. Hence a major part of the solution lie in how organizations manage human capital - the ability to attract, develop and retain talent and the corporate capability to move faster, execute better and learn more quickly than anyone else. The study is emphasizing on both hiring and maintenance of the human resource pool of an organisation to gain competitive advantage. organisations need to efficiently select and process those who will truly add value to the organization and maintenance of human resources pool of an organisation focuses on a broad range of activities

focused primarily on paying salaries and providing benefits and rewarding the most deserving.

People are the organisations greatest asset, providing the intellectual capital that drives differentiation and value added services. To keep pace with globalisation modern organisations have to deal with each individual differently and tactfully, thereby fulfilling the demands of employee as well as taking steps towards growth plan of the organisation. The research work found that by selective staffing organizations acquire needed types and level of skills which others can not. Then that form of human capital is becoming a source of competitive advantage. Employee stock option and employee stock purchase programme as a part of employee compensation creates ownership culture and ensures employee retention. Hence it can be concluded that the acquisition HR policies and practices of the organizations under study are developed over time, creates idiosyncratic context and cannot be simply purchased in the market by competitors and increases the human capital value of the organizations.

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VII. DECLARATION

The article entitled "An Empirical Investigation of Impact of Acquisition HR Configuration on Human Capital Development" is an original manuscript written by Dr Jyotirmayee Choudhury and Suresh Chandra Nayak. The manuscript is not published or not sent for publication anywhere.