Title: **Human capital. Beyond the fad, what the analogy really tells**

Titre : **Capital humain : généalogie d'un concept, implications pour la gouvernance et le management des hommes**

Fabienne AUTIER
Professeur MRH
UPR M&RH
EM LYON
23 Av. Guy de Collongue
69.132 ECULLY
autier@em-lyon.fr

Communication en anglais

Résumé :
Le recours, désormais courant et valorisé, au concept de « capital humain » (en substitution de la notion de « ressource humaine ») est aujourd'hui largement abusif.
Défini pour la première fois par des économistes du travail (Schultz, 1961 ; Becker, 1975 ; Becker, 1993), ce concept est aujourd'hui à la fois communément mobilisé mais sous-utilisé par les praticiens et les théoriciens de la gestion.
Nous avançons en effet qu'il porte en germe une reconsidération radicale du statut des « employés » dans les organisations et pose la question de leur participation au gouvernement de l'entreprise.
Cet article s'appuie tout d'abord sur une revue de littérature inter-disciplinaire en GRH, économie du travail et théorie des droits de propriété qui vise à retracer la généalogie du concept de capital humain et à analyser les implications logiques qu'il y a à son utilisation.
Il présente plus particulièrement les travaux récents, issus de la recherche en GRH (Coff, 1997; Lepak & Snell, 1999 ; Galunic and Anderson, 2000) et de la recherche en théorie des droits de propriété (Blair, 1995 ; Blair & Roe, 1999 ; Blair & Kochan, 2000). L'objectif est d'identifier les implications logiques et pratiques à l'utilisation de ce concept.
Le papier confronte ensuite ces avancées théoriques récentes avec les résultats d'un questionnaire exploratoire, conçu par l'auteur et testé auprès de participants MBA en 2004-2005, visant à mesurer la perception de cette notion de « capital humain » par les employés. L'auteur déduit de cette confrontation 4 propositions pour tirer le meilleur parti de cette « révolution conceptuelle » et identifie les directions à suivre pour des recherches à venir.

Key words: human capital, HRM, corporate governance, employee participation.
Mots clés : Capital humain, GRH, gouvernement des entreprise, participation des employés

Human capital. Beyond the fad, what the analogy really tells

Capital humain : généalogie d'un concept, implications pour la gouvernance et le management des hommes

Communication en anglais

Résumé :
Le recours, désormais courant et valorisé, au concept de « capital humain » (en substitution de la notion de « ressource humaine ») est aujourd'hui largement abusif.
Défini pour la première fois par des économistes du travail (Schultz, 1961 ; Becker, 1975 ; Becker, 1993), ce concept est aujourd'hui à la fois communément mobilisé mais sous-utilisé par les praticiens et les théoriciens de la gestion.
Nous avançons en effet qu'il porte en germe une reconsidération radicale du statut des « employés » dans les organisations et pose la question de leur participation au gouvernement de l'entreprise.
Cet article s'appuie tout d'abord sur une revue de littérature inter-disciplinaire en GRH, économie du travail et théorie des droits de propriété qui vise à retracer la généalogie du concept de capital humain et à analyser les implications logiques qu'il y a à son utilisation.
Il présente plus particulièrement les travaux récents, issus de la recherche en GRH (Coff, 1997; Lepak & Snell, 1999 ; Galunic and Anderson, 2000) et de la recherche en théorie des droits de propriété (Blair, 1995 ; Blair & Roe, 1999 ; Blair & Kochan, 2000). L'objectif est d'identifier les implications logiques et pratiques à l'utilisation de ce concept.
Le papier confronte ensuite ces avancées théoriques récentes avec les résultats d'un questionnaire exploratoire, conçu par l'auteur et testé auprès de participants MBA en 2004-2005, visant à mesurer la perception de cette notion de « capital humain » par les employés.
L'auteur déduit de cette confrontation 4 propositions pour tirer le meilleur parti de cette « révolution conceptuelle » et identifie les directions à suivre pour des recherches à venir.

Key words: human capital, HRM, corporate governance, employee participation.
Mots clés : capital humain, GRH, gouvernement des entreprise, participation des employés

Introduction

Human Capital stands nowadays as the ultimate fashionable concept. Academics as well as companies' top executives and HR directors, consultants and technology vendors all use it as an alternative to the supposedly old-fashioned human *resource* concept (Walker, 2001).

Such a hype is not surprising as the concept is intuitively appealing. It designates the skills, experience and knowledge of employees (Flamholtz and Lacey , 1981). It suggests that, in our information-based, knowledge-driven and service-intensive economy (Davenport, 1999 ; Gratton, 2000 ; Bartlett & Ghoshal, 2002) employees skills, experiences and knowledge are a form of capital, critical for the firm, as financial capital is.

The underlying assumption is that of a symmetry between financial capital and human capital. For firms' top managers this analogy suggests that employees cease to be considered as production factors or passive resources but are a form of capital that has to be attracted, developed and retained. It is an invitation for considering people management as a boardroom issue, not only a functional one. As a result, as they do for their financial capital, firms increasingly monitor their human capital (HC) (Epstein & Birchard, 1999 ; Baruch, 2000 ; Becker & al., 2001 ; Mayo, 2003) and try and make progress on measuring the impacts of their investment in such a capital (Fitz-Enz, 2000). They even disclose indicators about their "Human Capital" to financial analysts (Autier & al., 2003).

HC is also supposedly a positive signal sent to incumbent and would-be employees, indicating they now stand one step above in corporations, i.e. from commodities to vital capital.

For the HR function, stating that employees are a form of capital immediately brings it to the fore of the company's vital functions, closer to the most respected one, finance.

For external analysts, notably investment funds and asset managers, as firms' capital become less and less tangible, there is a growing need to apprehend firms' HC and their investment in it. In order to do so, they set up social rating and screening (e.g. SAM Sustainability, Calvert, Friends Ivory & Sime, Arese). As an example, the UK standard "investors in people" certifies companies' aim at developing and making the best use of their Human Capital.

The current situation is thus that of a widespread acknowledgement of the relevance of such an analogy.

Problem, when using this concept, business actors don't measure nor realize the full implications of it in terms of people management and employees' role in modern corporations.

Recent research and theorizing on human capital (HC) and property rights teaches us that such a concept raises major stakes for firms.

First, recent theorizing on human capital puts forward the idea that HC is a specific type of capital and as such, cannot be easily assimilated to any other form of capital, notably tangible capital (such as finance, material or building). These characteristics generate major management dilemmas for firms (Coff, 1997; Galunic and Anderson, 2000).

Second, recent theorizing on property rights tells us that considering employees as a form of capital raises major challenges regarding their status and role in such corporations (Blair, 1995 ; Blair & Roe, 1999 ; Blair & Kochan, 2000).

Building on an extensive literature review and an exploratory survey among MBA participants, we first present the HC concept genealogy (1). We then review the recent assaults on the unquestioned and generalized used of the HC concept (2). We finally put forward 4 propositions to make the full of such an analogy (3).

In the concluding section, we finally, identify implications for future research in corporate governance, people management and for HRM practionners.

1- **Human Capital genealogy**

The reference to the Human Capital (HC) concept dates back to 1961. It first appeared in the work of American economist Schultz: "*although it is obvious that people acquire useful skills and knowledge, it is not obvious that these skills and knowledge are a form of capital, [and] that this capital is in substantial part a product of deliberate investment*" (1961, p1). The components of such capital are "*skill, knowledge and similar attributes that affect particular human capabilities to do productive work*" (1961, p8).

It encompasses such diverse items as university diploma, a tool mastery, a pottery man « tour de main » or the management skills of the manager.

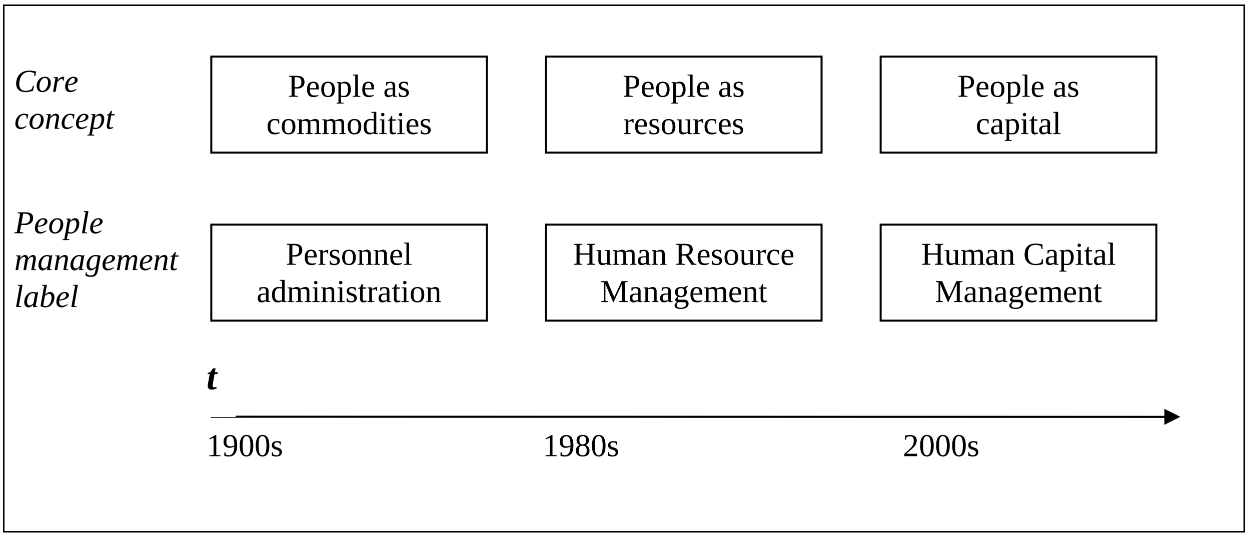
It is a stock that one can create, accumulate and use. It possesses two important characteristics: it is intangible (made of aptitudes) and non separable from the person who owns it (Becker 1975 ; Gazier, 1991). It can be developed alternatively by individuals themselves (and/or their family), corporations and/or States (Becker 1975 ; 1993).

.

Flamholtz and Lacey were the very first to identify the "*considerable potential relevance*" of human capital theory for management and human resource management research (1981, p30). As they put it: "*the basis of human capital theory is the concept that people possess skills, experience and knowledge which can be viewed as a form of capital. Investment are made to develop the skills, experience and knowledge of people and returns are earned on those expenditure*" (Flamholtz and Lacey, 1981, p30).
They put forward a very much agreed on definition of HC as comprising human beings *skills*, *experience* and *knowledge* (Flamholtz and Lacey , 1981. p19).

Despite Flamholtz and Lacey early try to bring the HC concept into management research, and specifically into HRM research, it has been adopted lately by HRM researchers (Lepak and Snell, 1999 ; Galunic and Anderson, 2000 ; Hitt, 2001).
This adoption is a further consequence of the idea that people more and more make the difference in the competitive game (Ulrich, 1991 ; Pfeffer, 1994 ; Bartlett and Ghoshal, 2002).
This adoption represents a third step in the people management genealogy (see Figure 1).

Figure 1- People management genealogy



At the very early stages of people management, companies were considering employees mostly as "commodities", i.e. production factors that were necessary but not of a major importance. Employees were performing simple, repetitive tasks and were easily replaceable (Wallace, 1998). They were managed mostly on a collective and quantitative basis. The common label for people management was “personnel administration”.

People at work start being considered as “resources”, mostly when the nature of the competitive game changed and a widespread acknowledgement appeared stating that there were fewer and fewer ways to gain and sustain competitive advantage, except through people. People start being considered as distinctive resources for firms in the competitive game (Pfeffer, 1994, Ulrich, 1991). Since employee skills, knowledge, and abilities are among the most distinctive and renewable resources upon which a company can draw, their strategic management is considered as more important than ever before (Snell, Youndt and Wright, 1996). From the mid 90s, the Resource-Based View of the firm (RBV), initially stated by strategists researchers (Wernerfelt, 1984, Barney, 1986, Amit & Schoemaker, 1993), is imported back in HRM research notably by Wright and McMahan, 1992, Lado & Wilson, 1994 and Snell, Youndt and Wright, 1996.

People as Human Capital is a new step in “people management”, starting from the late 1990s (Davenport, 1999 ; Walker, 2001 ; Van Marrewijk M. & Timmers, 2003). For these researchers, there is an urge to acknowledge the limitations of the “employee as assets” (or human resources) metaphor (Davenport, 1999).

In fact, the decline in loyalty between worker and organization deeply questions the implicit assumption that a company enjoys ownership (even abstract or emotional) of employee assets. Companies don’t own their people ; workers, not organizations, own human capital.

Second, whereas assets are passive, bought, sold and replaced at the whim of their owners; workers in contrast, take increasingly active control over their working lives. Workers, not organizations, decide when, how, and where they will contribute it.

The alternative Davenport proposes is to shift to a view that considers workers as human capital owners and investors: the “worker as investor” metaphor (1999, p7). « *People are not costs, factors of production, or assets. They are investors in a business, paying in human capital and expecting a return on their investment* » (Davenport, 1999, pxii).

Considering the workforce’s skills and experience as a form of capital and management practices as investments, offers a new perspective on traditional people management issues. The Human Capital Theory (HCT), the Resource-Based View (RBV) and the Transaction Cost Theory (TCT) are the dominant theoretical frameworks to analyze Human Capital Management strategies (Coff, 1997 ; Galunic and Anderson, 2000 ; Hitt & al. 2001 ; Lepak and Snell, 1999).

2-Assaults on the unquestioned and generalized used of the HC concept

Recently, the HC concept faced important assaults.

The first one comes from a stream of research critically mobilizing the Human Capital Theory (HCT) in order to point out its benefits and limits for HRM research (Coff, 1997, Galunic & Anderson, 2000).

The second stream comes from economists and law researchers concerned with Property Rights Theory (Blair, 1995 ; Blair & Roe, 1999 ; Blair & Kochan, 2000). To our knowledge, this second stream hasn't been imported in HRM research yet.

2.1 Critical evaluation of HCT

HCT has been mobilized by strategic HRM research because it is mostly concerned with the labor costs relative to the return on investment (i.e. future productivity) for developing employee skills and knowledge (i.e. education and training) ; it postulates that firms seek to protect themselves from the transfer of their human capital investments to other firms ; and that, investments in the development of generic skills are incurred by workers, whereas investments in firm-specific training are incurred by the firm (Lepak and Snell, 1999).

In 1997, Coff undertakes to critically examine the relevance of the HC concept for HRM research. He proposes to define human assets as "*human capital under limited organizational control that have the potential to generate economic rent*" (p375, 1997).

His point is to elicit the major specificities of HC in comparison to other types of capital (namely, machines, money, technologies, etc.). In other terms he seeks to render explicit why "*human assets differ from an oil field*" (p374, 1997). There are 4 main differences.

- Firms don't own the people working for them. "*Unlike tangible assets, firms cannot own employees who are free to quit at will*" (Coff, 1997, p377). Firms are thus confronted with a risk of (unwanted) high turn over (Cascio, 1991 ; Steffy & Maurer, 1988),
- Human capital can be present in the firm (employees are under employment contracts for the firm) but not contribute to its full capacity (i.e non motivated employees),
- Human capital can disagree with a strategic decision (i.e a merger, a restructuring plan) and thus either quit, negotiate (set up collective actions), or go into moral absenteeism,
- Human capital seeks (is motivated by) other rewards and incentive than only money (i.e are motivated by working conditions, participation, etc.).

According to Coff, the very attributes that make employees strategic assets (tacit knowledge, social complexity, difficulty to imitate) are also what make them very "*difficult to manage*" (p375 ; 1997). The human capital analogy paradoxically highlights the fact that people cannot be treated as a capital to optimize.

Such line of argument as been confirmed by empirical research in the video game sector (Autier & Picq, 2005). The authors observed that video game companies, as they grow, tend to get rid of their specific, socially complex and causally ambiguous human capital (namely the creative people) because they are just too difficult to manage within the frame of the employment relationship.

Galunic and Anderson (2000) show that, in contradiction to what HCT stipulates, it may be of interest for a firm to invest in non specific human capital. In fact, these generalized investments in human capital (i.e. investments in capabilities that people can transfer and deploy to other firms) can have a positive effect on workers' commitment to the firm ; such increased commitment being highly valuable given the fragile state of the contemporary employment relation.

Paradoxically, the HC concept thus raises issues of people commitment, motivation and loyalty.

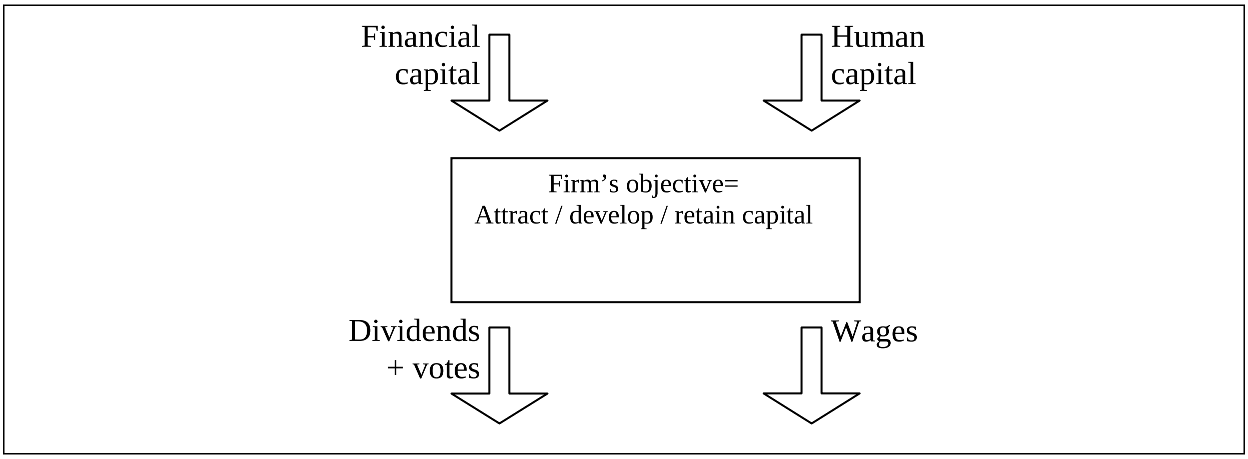
2.2 Human Capital & Property Right Theory

When one refers to human capital, the associated implicit claim is that there is a logical symmetry between financial capital and human capital. Human beings at work could be considered as a generic input, as is finance ; a capital that firms seek to acquire (i.e hire), develop (i.e. via appropriate incentive, training, career management) and even get rid of, if necessary (i.e. lay people off if too expensive or no longer adapted to the firm's activity).

Yet, as Blair and al. point it (Blair and Roe, 1999 ; Blair and Kochan, 2000), whereas investors get dividends (rights on created value) and rights to control the management of the firm (votes) ; employees only get wages (i.e. the promise that they will have a steady stream of revenue but no « say » in the firm's management and government).

Figure 2 (page after) pictures such an asymmetry.

Figure 2 – The asymmetry between labor and capital



For Blair and al. this asymmetry is more and more of a problem as firms require higher commitment from people, ask for more complex and autonomous missions, and ask them to be responsible for more and more activities.

Specific human capital even more fundamentally questions this asymmetry. According to Blair, whereas firms greatly benefit from investments in specific human capital (customized skills, greater productivity, quality, etc.), individuals don't. If they leave, they are unable to collect any further return, and thus suffer a capital loss.

Firm-specific investments in human capital cannot be redeployed (by definition) and thus employees are invested for life. Sure, they can deprive the firm of their firm-specific skills but they cannot benefit from doing so, since these skills (by definition) have less value elsewhere.

Those employees who make firm-specific investments in human capital are presumably expecting to be compensated from the future productivity of those investments, that is to say from a share of the future « residual » income, or economic surpluses, of the firm.

This means they rely on a continuing relationship with the firm (although they have no explicit future claim on the firm)

As a result, Blair and al. anticipate that, as human capital becomes a more important source of competitive advantage, employees are likely to begin challenging the social and political norms that have emphasized the primacy of other resources such as finance capital. In fact, "*how can you put your specific human capital at risk if you don't have a « say » in the firm you work for ?*" (Blair, 1999)

As human capital grows in importance, one can expect its owners (the employees) to seek greater influence and power in the key decisions that affect the organization.

3- Propositions for a full and conscious use of the HC analogy

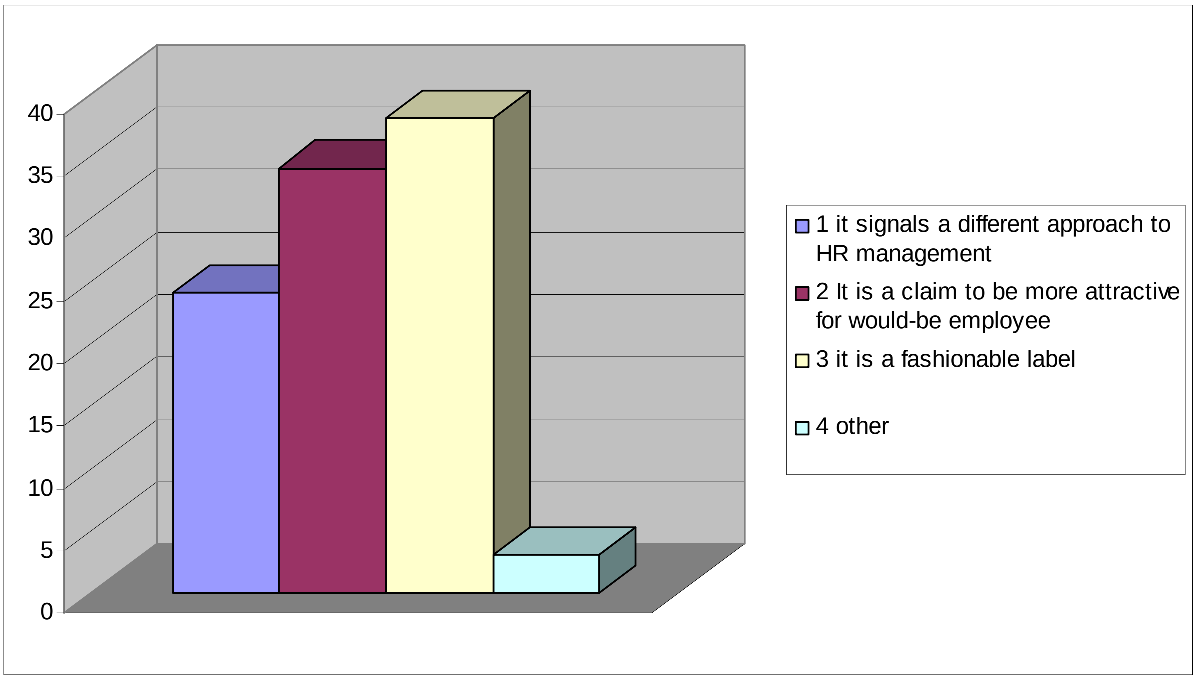
These two recent steams of research invite us to make a full, conscious use of the HC analogy, i.e. to point out its limits and identify the challenges it brings to people management. Building on theoretical work and an exploratory survey (see **Appendix 1** and **Appendix 2)**, we present four propositions in that direction.

Proposition 1 – When used unconsciously, as is generally the case today, the HC analogy generates defiance among employees.

This is well illustrated by our exploratory data (see **Appendix 1** and **Appendix 2**). Whereas we might expect employees to be pleased with such an analogy, because it promotes them to a new, higher status in corporations, their perceptions are quite different.

The answers we got from question 9 of our questionnaire is a preliminary measure of the perception gap that exist between firms and employees when it comes to the "human capital" analogy (see Figure 3 below).

Figure 3 – "When a firm states "its human capital is its greatest asset" do you consider:"



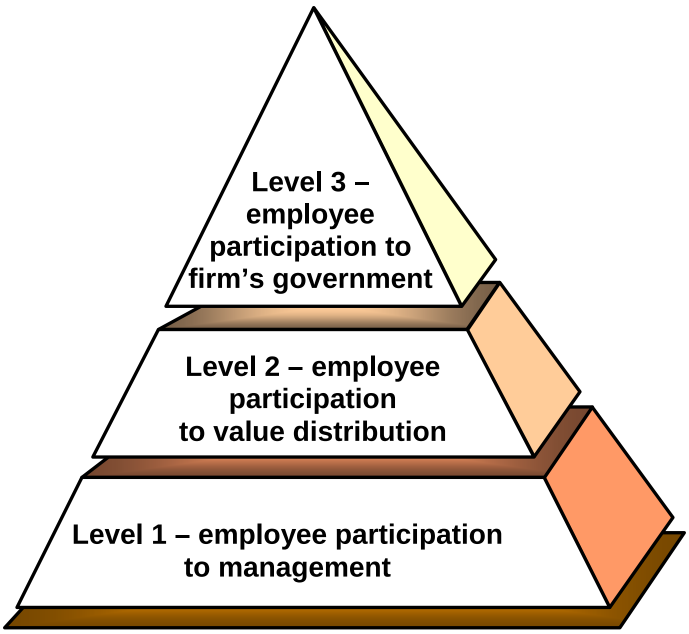
24% of respondents do consider the "human capital claim" does signal a different approach to HR management (positive), while the great majority consider either it is a claim to be more attractive that does not correspond to a change in practice (34%) or that it is a fashionable concept (38%).

From the qualitative comments we got out of this question, employees appear highly defying and cynical vis-à-vis this concept ("*it is marketing*", "*it is a "must" with no grounding*", etc.).

One possible rationale for such a gap is that the claim (people are capital) is still too often in contradiction with practice (people are in fact often treated as commodities, passive resources, costs to be cut in companies) (Bartlett and Ghoshal, 2002).

Proposition 2 – The human capital concept challenges modern corporations one step further in terms of employee participation. Specifically, we argue that the very use of the HC concept calls for a higher, enhanced employee participation to the firms' government.
In order to elicit this challenge, we propose to differentiate three levels of employee participation to the firms (see **Figure 4** below).

Figure 4 – The 3 levels of employee participation to the firms



Level 1 participation designates employees' participation to the firm's management. This is the most studied and experimented level.
It consists in offering employees, opportunities to participate in different collective bodies so as to be more active, responsible and consulted concerning work organization and operational issues. This is one common features that is found in High Commitment management and High Performance Work Systems (Wood, 1996 ; Appelbaum & al. 2000).

It often takes the form of employees' participation to project teams, committees, quality circles,etc.
Interestingly, firms have, from the early 70s up to now, massively offered this level of participation to employees (Lewin and Mitchell, 1992 ; McCabe and Lewin, 1992).

Level 2 participation designates employees' participation to value distribution.
It consists in offering to some or all employees the right to benefit from the value created by the firm, apart from wages; this can be done through profit sharing schemes, ESOP, etc.
Interestingly, this second level is increasingly studied by academics and offered by firms.
For Davenport (1999), organizations can win employees allegiance through one means only – returning value for value. He thus suggests a major change in how people are rewarded: a worker who acts like a human capital investor will place his or her investable capital where it can earn the highest return. Work has to be considered as a two-way exchange of value, not a one way exploitation of an asset by its owner (there is no longer blind loyalty).
In the same vein, Bartlett and Ghoshal (2002) invite firms to consider employees as "talent investors" to be treated as partners and rewarded the way other investors are. They recommend to depart from the idea that shareholders, as contributors of capital, have the primary claim over created value distribution. The rapid spread of stock options as a form of compensation shows that companies have begun to recognize that the owners of scarce resources are no longer only shareholders but also employees (Bartlett and Ghoshal, 2002).
Equity-based compensation schemes are viewed by Blair and Kochan (2000) as a way to win back employee loyalty and encourage workers – despite the shattering of the old « social contract ». Employee Stock Ownership (ESOP) may not only provide firms with some protection from take over, but also help retain workers, and encourage greater commitment on the part of employees to cooperation, information sharing and full participation.

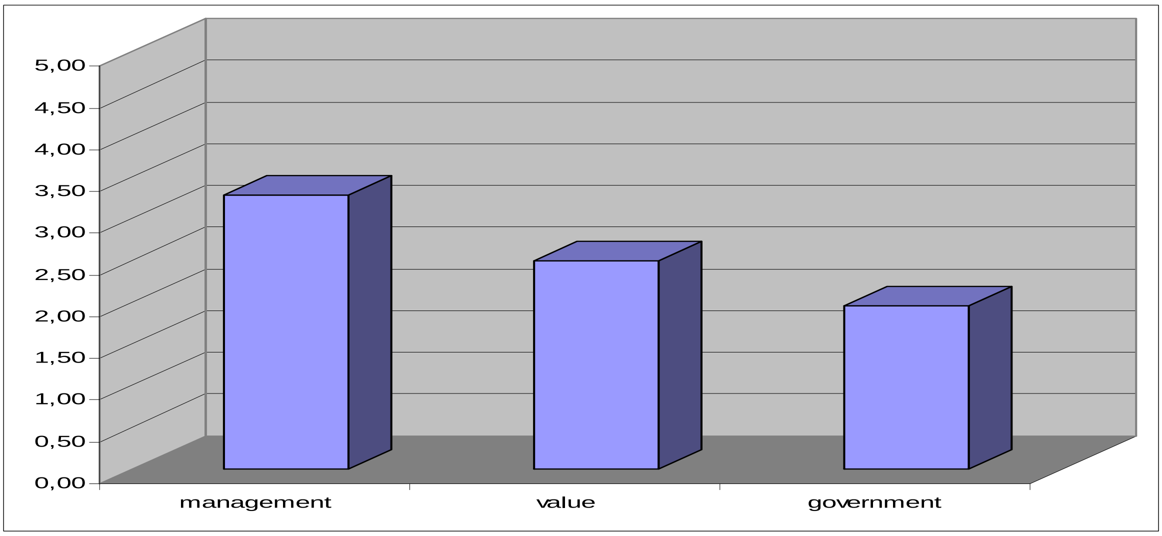
Level 3 participation designates employees' participation to the firm's government.
This third level is definitely the least documented and experimented right now within companies, yet this is where lies the greatest challenge brought by the HC concept.
As firms consider their employees as Human Capital and require them to develop specific HC, they have to provide them with another incentive than only money. In symmetry with financial investors, employees need money and a "say" or "voice" in the firm's government (Blair and Roe, 1999). The desirable symmetry between financial shareholders and human

shareholders implies to offer the same rights to both, namely, a pro rata share of net earnings and a pro rata share of vote.

This latter implication of the use of the HC analogy is mostly documented by Blair and Roe. (1999) and Blair and Kochan (2000). We find one reference to it in Coff's work (1997). In fact, among the coping strategies to keep a motivated HC, he recommends rent sharing (Level 2 participation) *and* shared governance (Level 3 participation).

The exploratory data we got from employees report unsurprisingly a current firms' preference toward level 1 and level 2 participation, whereas level 3 participation stands one step below. In addition, when Level 3 participation does exist, it is often associated with highly institutionalized and non very active forms of employee voice.

Figure 5 – "In the last company you worked for, if you had to compare the participation level offered to employees in terms of: Management; Value distribution; Government.
How would you evaluate the relative importance of each item, from 1 (low) to 5 (high)?"



Some of our respondents explicitly deplored, in the qualitative part, such gap between the three levels of employee participation, arguing that the three should go hand in hand.

Proposition 3 – The concrete modalities of *Level 3 participation* have yet to be renewed and even invented.

There are some initiatives, notably in countries where labour law sets standards for employee participation, as is the case in Germany, Sweden or France (Oakeshott, 2000).

Yet, the standards don't always work as intended, the resulting institutional settings are either formally invested or confiscated by trade unions.

There are also some insights to be taken from Significantly Employee Owned Businesses and the governance systems they use to operate and offer a say to employees (Oakeshott, 2000).
Kochan puts forward the idea that firms should grant loyal employees, who invest and put at risk their human capital, a right to sit on the boards of their corporations just as these rights are granted to investors of financial capital. It is interesting to note that it is sometimes the case when there is a crisis (consider as an example the trucking, steel or airline industries, where employee representatives were invited onto firms' boards in exchange for major worker concessions). But why should employee get a voice only in the governance of failing companies? Elected employee representatives would give workers a say in decision-making that directly affects them while also providing investors with an additional independent check and balance on executive actions. (Kochan, 2002)
Level 3 initiatives should thus conform with the following criterion:
-direct role in companies boards (i.e. one or several seats) for employee representatives, not as trade union representatives but as a human capital representatives (they would thus have to be elected by the workforce).
-indirect role to employees through voting rights in general assembly,
-increased access for employees to relevant strategic information and training.

Proposition 4 – The call for a higher, renewed employee participation reported in proposition 3 cannot be considered as linear nor systematic.
Level 1, 2 and 3 employee participation applies differently from firms to firms – not every firms will want to offer the same access to the three levels ; and from sub-populations to others - not everybody wants nor deserves to participate to the firms management, value distribution or government.
We hypothesise that such segmentation very much depends on the firm's top-management conception of HC.
Here, we differ notably from the dominant strategic HRM perspective (Lepak and Snell, 1999) which tend to consider that the very nature of the human capital needed by the firm determines to a large extent its people management strategy (namely, internalization or externalization). Here is how Lepak and Snell puts it: "*we believe that the most appropriate mode of investment in human capital will vary for different types of human capital*" (p32, 1999).

We suspect explaining firms' people management strategies as a direct and linear consequence of the HC characteristics holds a major risk of ex post rationalisation.

Rather, in line with Boxall and Purcell (2003), we propose to highlight the latitude firms enjoy in terms of how they use HC to operate and build a lasting competitive advantage out of it.

We argue there are 3 emerging ideal-typical people management strategies.

Strategy 1 - Depreciate human capital

Firms choosing this people management strategy seek to lower their dependency on their HC. In order to do so, they tend to :

- standardize work (make it easily prescript able and identifiable)
- de-specify the competencies they need to operate (in order to decrease the initial learning costs and get new comers immediately productive),
- increase polyvalence of their employee at work (employees are expected to be able to perform several tasks and hold different positions in the production process). Such polyvalence offers an increased flexibility of operation (in line with the business requirements), people being interchangeable from one position to another.

As a result, they are able to decrease people's individual and collective bargaining power, and symmetrically lower their dependency on HC, so as to offer low level HRM and tolerate pretty high rates of turn over (sacrificial type of HR strategy).

Within the frame of such strategy, Level 1 participation can be offered to employees (for the sake of a more efficient operation of the business) but not Level 2 nor a-fortiori Level 3 participation.

Exit (Hirschman, 1970) is the major alternative for employees non satisfied with the firm's people management strategy.

Such strategies are surprisingly more and more common in the people-intensive service economy.

Strategy 2 - Compromise with human capital

Firms choosing this people management strategy tend to look for an acceptable "deal" with their employees.

Sure Human Capital is critical for the business, but not to the extent that it justifies too ambitious and costly HRM.

Level 1 participation is offered for the sake of excellent operation and enhanced individuals contribution, while Level 2 participation is offered to all or some employees (profit sharing schemes, ESOP) but no Level 3 participation.

The firm seeks to contain turn over rates and get fairly motivated people. Calculated loyalty from employees is targeted (Hirschman, 1970).

These firms tend to offer good wages in comparison with competitors.

These firms tend to invest in specific competencies (through less expensive internal training) and generic competencies. Part of the deal with employees, is to increase their future employability (as documented by Galunic and Anderson, 2000).

The employment conditions offered are counter-balanced with a sustained employability reinforced by the good reputation of this employer on the job market.

Strategy 3 - Make the full of human capital

Firms choosing this strategy want to get the full of their people, i.e. get qualified, committed, loyal employees. In order to get so, they choose to offer Level 1, 2 and 3 employee participation. Offering Voice (Hirschman, 1970) is seen as the only viable alternative to get and secure talented and motivated people.

These firms definitely don't compete only on money.

Such firms valorise a low turn-over, long term tenure and employee stability.

They do ask their employee to invest in specific HC.

They tend to offer a fairly ambitious HRM policy (good wages, career management, training investment).

The major risk they face is a high dependency over employees. If one leaves, it is long and costly to re-attract and re-train new comers.

It has to be noted that there is still a major gap between the requirements for such strategies (modern corporation strive to get qualified, committed, loyal employees) and the actual companies implementing it.

For an overview of these three HC strategies, see Figure 6 (below). The arrows in column 2, 3 and 4 schematically indicate what firms intentionally do in order to either increase or decrease HC's contribution and role in the firm.

Figure 6 – Overview of firm's HC strategies

	Work standardi-sation	Human capital "specific-ation"	Employee polyvalence	Employee participation level offered	Employees main options
Strategy 1 – HC depreciation	High ↗	Low ↘	High ↗	No or level 1	Passive loyalty Exit
Strategy 2 – HC compomise	Medium →	Low ↘	Medium →	Level 1 & 2	Active Loyalty Exit
Strategy 3 – HC valorization	Low ↘	High ↗	Medium →	Level 1, 2 & 3	Active loyalty Voice Or Exit

Conclusion - Implications for future research

The Human Capital analogy challenges management practitioners, specifically, top managers and HR directors. In fact, one shouldn't refer to it without a full conscience of its meaning and implications. It does confront firms with new challenges regarding employees' role and status in the firm's management, value distribution and government.

Yet, we hypothesize that firms have different options to react to it. They can either aim at depreciating their HC, compromising or making the best of it.

Their chances of success in building a lasting competitive advantage very much depend on the relevance of their strategy (with regard to the very nature of the competencies they need, the available technologies, etc.) but also the state of the labour market and the resulting social acceptability of their practices.

The Human Capital concept challenges academic researchers in HRM and Corporate Governance as well.

The shift from Personnel management, to HRM, to HCM implies to connect people management to corporate governance, which has not been done until now, except in exploratory empirical work such as the one of Deakin and al. (2002).

For Corporate Governance research, it signals the urge to consider employees as a first level stakeholders.

Finally, in line with Blair and al. we are conscious that organizations and institutions seldom reallocate power and decision-making roles without resistance and conflict: we can expect a great deal of resistance to granting employees greater voice in corporate governance processes.

Yet, we anticipate it is a logical need for modern corporation to operate, all the more so as they require more and more qualified, autonomous, committed people.

<u>Bibliography</u>

Amit R. and Schoemaker P. (1993) Strategic Assets and organizational rent, *Strategic Management Journal*, 14 (1): 33-46

Appelbaum, E., Bailey E., Berg P. & Kalleberg A. *Manufacturing advantage: Why high performance systems pay-off*, ILR Press, 2000

Arcimoles (d') C.H. & Trebucq S. Une approche du rôle de l'actionnariat salarié dans la performance et le risque des entreprises françaises, *Revue de Gestion des Ressources* Humaines, n°48, Avril-Mai-Juin 2003

Autier F. Durand R. & Gates S. There's More to Cooking Than Reading the Recipe: The Case for HR Information Disclosure, Intelligence section, MIT Sloan Management Review, April 2003

Autier F. & Picq T. SHRM in the video games industry, *The International Journal of Technology Management*, Special Issue on Human Resource Management in High Tech Companies, V31, N3/4 2005

Barney J. (1999) Firm resources and sustained competitive advantage", Journal of Management, 17: 99-120

Baruch L. 2000. Intangibles, Management, Measurement, and Reporting, Unpublished paper, New York University.

Bartlett & Ghoshal, Building competitive advantage through people, *MIT Sloan Management Review*, Winter 2002

Blair M. *Ownership and control – Rethinking corporate governance for the twenty-first century*, Brookings Institution Press, Washington DC, 1995

Blair M.M. & Roe M.J Editors *Employees and corporate governance* Brookings Institution Press, Washington DC, 1999

Blair M.M. & Kochan T.A, Editors *The new relationship – Human capital in the American Corporation*, Brookings : Washington DC, 395p, 2000

Becker B.E., Huselid M.A. 2001. The strategic impact of HR, *Harvard Business School Review*

Becker B.E., Huselid M.A. & Ulrich D. 2001. *The HR scorecard. Linking people, strategy, and performance*, Harvard Business School Press: Boston MA, 235p

Becker G. 1975. *Human Capital*. University of Chicago Press, Chicago

Becker G. S. Human capital: a theoretical and empirical analysis with special reference to education, University of Chicago Press, 1993

Blair M.M. & Kochan T.A. 1999. *The new relationship. Human capital in the American corporation*, Brookings : Washington DC, 350p

Cascio W.F. *Costing human resources: the financial impact of behaviour in organizations*, PWS Kent, 1991

Coff R. 1997. Human assets and management dilemmas: coping with hazards on the road to resource-based theory, *Academy of Management Review*, Vol. 22, N°2: 374-402

Davenport T.O. *Human capital – What is it and why people invest in it,* Jossey-Bass, 1999

Deakin S., Hobbs R., Konselman S. & Wilkinson F. Partnership, ownership and control – The impact of corporate governance on employment relations, *Employee Relations*, 2002, 24 :3.

Fitz-Enz, *The ROI of Human Capital, Measuring the economic value of employee performance*, 2000 Amacom

Flamholtz E.G & Lacey J. 1981. Human capital theory and human resources. *Personal management Series,* University of California : Los Angeles. 112 p.

Galunic C., Anderson E. 2000. From security to mobility: Generalized investments in Human Capital. *Organization Science*. 11 (1): 1-20.

Gazier B. *Economie du travail et de l'emploi*, Dalloz 1991

Handfield-Jones H. Ed. & Alxelrod B. 2001.*The war for talent*. Harvard Business School Publishing: Boston MA.

Hirschman A.O 1970. *Exit, Voice, Loyalty, Responses to Decline in Firms, Organizations and States*, Harvard University Press,

Hitt M.A., Bierman L., Shimizu K. & Kochhar (2001) Direct and moderating effects of human capital on strategy and performance in professional services firms, *Academy of Management Journal*, Vol.44, n°1, 13-28

Huselid M. A. & Jackson S. E & Schuler R. S. 1997. Technical and strategic human resource management effectiveness as determinants of firm performance *Academy of Management Journal*. 40 (1): 171-188

Kochan T. A & Osterman P. *The mutual gains enterprise – forging a winning partnership among labor, management and government* Harvard Business School, 1994

Kochan T. A *Addressing the crisis in confidence in corporations : root causes, victims, and strategies for reform*, Academy of Management Executive, 2002, Vol. 16, n°3

Lepak D.P & Snell S.A 1999. The human resource architecture: toward a theory of human capital allocation and development. *Academy of Management Review*, 24 (1): 31-48

Lewin D. & Mitchell D. Systems of employee voice : theoretical and empirical perspectives, *California Management Review*, Spring 1992, 34 :3

McCabe D. & Lewin D. Employee Voice : A Human Resource Management Perspective, *California Management Review*, Spring 1992, 34 :3

Oakeshott R. *Jobs and fairness – The logic and experience of employee ownership*, Michael Russel, 2000

Pfeffer J. 1994 *Competitive advantage through people : unleashing the power of the work force*. Boston : Harvard Business School Press : Boston MA, 281 p.

Rogers E.W. & Wright P.M. 1998. Measuring organizational performance in strategic human resource management! Looking beyond the lamppost, *Working paper series*, CAHRS, Cornell University, 24: 28

Schultz T.W. 1961 Investment in human capital. *The American Economic Review*, Vol. 51, Number 1 :1-17, March 1961

Snell S.A., Youndt M.A., & Wright P.M 1996. Establishing a framework for research in strategic human resource management. *Research in Personnel and Human Resources Management*, 14: 61-90. JAI Press

Steffy B.B & Maurer S.D. Conceptualizing the economic effectiveness of human resources activities, *Academy of Management Review*, 13: 271-286, 1988

Strobber, M.H. 1990. Human capital theory: Implications for HR Managers. *Industrial Relations*, 29 (2): 214-239

Ulrich D. 1991. Using human resources for competitive advantage. In R. Kilman, I. Kilman & Associates (Ed.) *Making organizations competitive* (pp129-155), Jossey-Bass: San Francisco.

Van Marrewijk M. & Timmers, J. Human Capital Management: New possibilities in People Management, *Journal of Business Ethics*, 44:171-184, 2003

Walker J. Human capital: Beyond HR? *Human Resource Planning*, Vol.24, n°2, 2001

Wallace T. 1998. "Fordism" in Poole, M. and Warner, M. (eds) The IEBM Hanbook of Human Resource Management, Thomson Business Press

Wernerfelt B. (1984) A resource-based view of the firm, *Strategic Management Journal*, (5): 171-180.

Wood S. High-commitment management and payment systems, *Journal of Management Studies*, 33(1): 53-77, 1996

Wright P. & Mahan G. 1992. Theoretical perspectives for strategic human resource management, *Journal of Management*, 18 (2): 295-320

Wright P.M & Snell S.A. 1998 Toward a unifying framework for exploring fit and flexibility in strategic human resource management, *Academy of Management Review*, 23 (4): 756-772

Appendix 1 - Empirical data

We report in this paper partial results of an exploratory survey conducted by the author. A 20 item questionnaire was administrated to EM LYON International MBA participants from November 2004 to March 2005 (see Appendix 1).

The objective of this exploratory self-report questionnaire was twofold:

1. measure the suspected perception gap between employees and firms about the very notion of "human capital"
2. explore how employees relate to the issue of their firm's government and their participation to it

The response rate (60%) was pretty high.

The sample consisted of 60 MBA participants. 16 different nationalities were represented ; 79% of respondents were male, 21% female.

The respondents were typically "middle managers" in a broad range of industries, from SME to large multinational groups. The average age of the respondents was 30-year-old, and the average work experience 6 years.

On average, respondent had work for 2.4 different firms until now.

Most questions were either close-ended or multiple choice questions. Personal comments from respondents were welcome in the end of the questionnaire so as to collect more perceptions and qualitative items.

For a full overview of the questionnaire, see Appendix 2

Appendix 2 - Questionnaire

IFGE (The French Corporate Governance Institute)

Your profile
Nationality :
Age :
Gender :
Last position :
Last company :
Size of your last company :
Business sector of your last company :
Number of companies you have been working for :

Questions
Q1- In the different firms you worked for, were you aware of who were the main shareholders or groups of shareholders?
Yes /No

Q1a- If Yes, were you aware of the shareholders or groups of shareholders relative rights for voting ?
Yes /No

Q1b- If, Yes, who was, in each company (from the least to most recent), the dominant shareholder (cross where appropriate)?

	Founding entrepreneur	Founding entrepreneur's family	Tiers shareholder	Pension fund	State	Employees	Other (please specify)
Company 1							
Company 2							
Company 3							
Company 4, etc							

Q2- Do you think it is of any relevance for you as a manager to know who are the shareholders of the company you work for?
Not relevant / some relevance / major relevance / decisive issue (circle the appropriate answer)

Q3- Would you consider it as a relevant variable to take into consideration when choosing a future employer ?
Not relevant / Minor importance / Important / Crucial (circle the appropriate answer)

Q4- In the last company you worked for, was there an Employee Stock Ownership plan?
Yes / No

Q4a- If yes, do you know what was the percentage of shares owned by employees?
Percentage of shares owned by employees:
Q4b-If yes, was it systematic (i.e. offered to all employees) or based on employee volunteer adhesion? (circle the appropriate answer)
Q4c- Did you buy shares?

Yes / No
Q4d- If yes, did you subscribed for:

- Money
- Having a say in strategic decisions
- Not to be identified as “non committed”
- Other (specify)

Rank from 1 (most important) to 4 (least important)
Q4e- Did you have direct voting rights associated with your shares or indirect voting rights (through mutual funds)?
Direct voting rights / Indirect (circle the appropriate answer)
Q4f - Did you ever vote on a or several resolution(s)?
Yes / No
Q4g- Did you ever attend a or several general assembly?
Yes/No

Q5- In the last company you worked for, was there any stock-option scheme?
Yes / No
Q5a- If Yes, were you part of it?
Yes/No
Q5b- If yes, what were you expecting from it?

- Money
- Having a say
- Other (specify):

Rank from 1 (most important) to 4 (least important)

Q6- In the last company you worked for, was there any “employee administrator” seat offered?
Yes /No
Q6a- If yes, did you consider being candidate for it?
Yes / No

Q7- Have you been confronted to ownership changes in the companies you worked for ?
Yes / No
Q7a- If Yes, what type of change was it ? (circle, in the table below, the appropriate answer for the initial and final situation)

Initial situation – t0 Main shareholder	List of possible shareholders or groups of shareholders	Final situation – t1 Main shareholder
X	Founding entrepreneur	Y
X	Founding entrepreneur’s family	Y
X	Tier shareholder	Y
X	Pension fund	Y
X	State	Y
X	Employees	Y
X	Other (specify)	Y

Q7b- In your opinion, this ownership change had a major impact on:

- The firm’s employment policy (specify):
- The firm’s compensation policy (specify):

- The firm's development policy (specify):
- The firm's participation policy (specify):

Rank from 1 (most important) to 4 (least important)

Q8- In the last company you worked for, if you had to compare the participation level offered to employees in terms of :

- Management (employee participation to project teams, committee, quality circles, etc.)
- Value distribution (employee access to profit sharing schemes, ESOP, etc)
- Government (employee participation to the board, rights for voting, access to strategic information, etc.)

How would you evaluate the relative importance of each item, from 1 (low) to 5 (high)?

Management	1	2	3	4	5
Value distribution	1	2	3	4	5
Government	1	2	3	4	5

Q9- When a firm states its "human capital is its greatest asset", do you consider:

a. It signals a different approach to HR management
b. It is a claim to be more attractive for would-be employees
c. It is a fashionable label
d. Other (please specify)

Personal comments:

Thank you very much for your participation,