

# The Role of Human Capital Management in Enhancing Service Delivery in Organizations

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## Abstract

Services have become a very dominant sector in most parts of the World and contribute more to the GDPs of countries than tangible products manufactured. Research in the services sector has mostly not been multidisciplinary even though to understand the management of services adequately needed a multi-dimensional approach. There is, therefore, an agitation for a lot of research work that cut across disciplines regarding the understanding of the service sector. Even though there is the existence of a lot of studies on human capital and organizational success, none of these studies focused its attention on how human capital can correctly play a role in the enhancement of service delivery in organizations. It is in this light that this paper looked at the role human capital could play in enhancing service delivery in organizations. This paper has practical implications for organizations who are committed to delivery competitive service.

**Keywords:** service delivery, human capital, customers

## 1. Introduction

Services characterize today's world. In the advanced economies for instance, services dominate and account for more than 70% of their gross domestic product (Scheler, 2013; Ostrom et al, 2010). The growth of services is projected to continue unabated in these countries (Ostrom, Bitner, Brown, Burkhard, Goul, Smith-Daniels, & Rabinovich, 2010). The dominance of the service sector is not limited to advanced countries. Even countries that have historically focused on manufacturing are also experiencing rapid service growth. For example, services account for more than 40% of China's GDP (IMF, 2013). In Africa, the economies of Ghana, Nigeria, Kenya and South Africa have services representing the following respective gross domestic products of 51%, 55%, 63% and 66 % (IMF, 2013). It is evidently clear that services are becoming the most dominant industry in the 21<sup>st</sup> century. This global phenomenon of significant, sustained service growth has led to an ever-growing array of questions. These questions have substantial implications for the success of firms, the well-being of societies, and the quality of consumers' lives worldwide (Bitner and Brown 2008).

In recent times, it has become more relevant than ever for new research to address the issues of services as a result of its complex nature. Consequently, Arizona State University's Center for Services Leadership embarked on an 18-month effort to identify and articulate a set of global, interdisciplinary research priorities focused on the science of service. Using participants from both academia and business, the study outlined ten priority areas deemed necessary for service research. Among these areas are fostering service infusion and growth, creating and maintaining a service culture, stimulating service innovation, enhancing service design and service experience through co-creation (Ostrom et al.,2010). These are commendable initiatives, however, as rightly argued by Skapska and Samul (2015), outstanding service "may only be provided if performed by a person who is competent, qualified, experienced and manifesting personality. All of those are human capital." (p. 277). Hence human capital management is the foundation of effective service delivery. In the words of Davidow and Uttal "the war of business has shifted onto a new battle ground . . . The spoils will go to those few companies that both perceive the need for outstanding service and take the steps necessary to deliver it" (cited in Prater & Whitehead, 2013, n.p). Also, Pugh and Subramony (2016) assert that contemporary theoretical developments and global economic trends highlight the importance of services and provide the impetus for developing new theory and research related to the role of organizations and employees in service design and delivery. They summarized extant services management research and contextualized their work on topical issues that included the development of theory within the areas of human capital resources, emotions management, HRM systems, employee-driven service delivery, healthcare HRM and provided detailed suggestions for future empirical inquiry. According to Pugh and Subramony (2016), the conceptual rigor and innovativeness of perspectives that characterize these topical areas help highlight the potential contribution of management scholars to the interdisciplinary study of services.

The American Marketing Association defines services as "activities, benefits and satisfactions which are offered for sale or are provided in connection with the sale of goods." In extant literature, the definition of service has expanded to encompass "the application of specialized competence (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself" (Vargo & Lusch, 2004). While the domain of services has witnessed a lot of research, service from the perspective of human capital is quite sparse (Skapska & Samul, 2015; Demartini & Paoloni, 2011). Besides, the role of employees in service delivery is frequently approached through the theoretical lens of emotional labor, i.e., employees' management of felt and

displayed emotions to meet organizational expectations and objectives. Nonetheless, the impact of human capital on customer outcomes is significant for any successful business and therefore cannot be underestimated. The nature of services requires a multidisciplinary approach to research (Ostrom et al., 2010), emphasizing both customer experiences of service delivery (services marketing research) and the organizational and employee processes that lead to those outcomes (services management research). Services research in management, particularly in the sub-field of Human Resource Management, can be considered to still be in its infancy when contrasted with the field of services marketing (Subramony & Pugh, 2015). The focus of this paper, therefore, is to examine the role of human capital in the enhancement of the service delivery process of an organization.

## 2. Understanding Human Capital Management

In the knowledge and service economy, human capital, which embodies the volume of knowledge, skills, creativity, and experience of the organization, has become critical for sustainable competitive advantage and employees' efficiency (Pasban & Nojehdeh, 2016; Hendricks, 2002). Accordingly, human capital is perceived as a fundamental factor of overall production progress. Investment in human capital is key to organizational success as suggested by different researchers (Jackson, 2007; Rahman & Al Mahmum, 2013; Mohiuddin, 2008). In the services industry specifically, human capital links the frontline service delivery, since service quality provision by frontline employees is an essential means of developing sustained competitive advantage (Ziethaml & Bitner, 2000).

Even though research in the field of human capital looks relatively new, there are several definitions from different scholars. The word human capital was first coined by Schultz in 1961. In 1981 the term was popularized and extended to include all the capabilities and competencies of an individual. Thus, those characteristics of a person that create or add value to the organizational operations is regarded as human capital (Siddiqui, 2012). Table 1 summarizes some key definitions of human capital management.

Table 1: Various Definitions of Human Capital Management

Authors & Year	Definitions
Armstrong (2010)	The primary feature of human capital is how the firm treats its employees as the most valuable resource, by utilizing the workforce efficiently, in order to gain competitive edge.
Kearns (2005)	Human capital management is a link between workforce and organizational planning.
Bontis et al. (1999)	Human capital indicates those reasons, which bring the individuals together in the organization, where they share their understandings of different aspects, experiences, and awareness by which they make firm different from its competitors.
Hudson (1993)	Human capital is a combination of genetic inheritance; education; experience and attitudes about life and business.
Davidson & Honig (2003)	Human capital as a tacit and explicit knowledge which in turn contributes to discoveries, exploitation and viable business.
Kor & Sundramurthy (2008)	Human capital refers to both entrepreneurs' current and past experience that enables them in shaping their thinking and perception.
Rastology (2000)	human capital as people who are highly skilled, creative, motivated and knowledgeable who in return can understand the dynamic business environment.
Unger et al. (2011)	Human capital refers to the attributes such as education and training or other professional initiatives to acquire related knowledge and skills which leads to the firm's performance.
Munjuri et al. (2015)	Human capital as the people's abilities in accomplishing a certain task, resolving a problem and making an innovation which will enhance the firm's performance.

Looking critically at the descriptions in Table 1, it is clear that there are a lot of similarities in these definitions than differences. The challenge for many however is the confusion between human resource management (HRM) and human capital management (HCM).

## 3. Human Capital Management (HCM) and Human Resource Management (HRM)

Armstrong (2006) defined human resource management as a strategic and coherent approach to the management of an organization's most valued assets – the people who individually and collectively contribute to the achievement of the organization's objectives. In support, Philips and Gully (2014) reiterates that HRM is the organizational function responsible for hiring, developing, rewarding and retaining talent. Hence, HRM is critical in determining an organization's success. Therefore, the core of HRM is designing systems that maximize the efficiency and effectiveness of an organization's use of its human capital in accomplishing organizational goals.

Comparing the definitions of HRM with the descriptions of HCM in Table 1 shows that both HRM and HCM are about people and how they help achieve the goals of an organization. However, while HRM is a strategic and coherent approach to managing an organization's most valued assets – the people, HCM looks more at building a

mindset in the firm on the contribution these valuable assets could bring when adequately harnessed. In effect, we see HCM as a natural progression from HRM just as HRM was a natural progression from Personnel Management. Critics of these concepts say they are almost the same and it is only a change of terminology. We, however disagree and see HCM as the more appropriate way to deal with issues regarding people in organizations today since it is about a mindset and philosophy rather than just a management process which is the core characteristic of HRM.

Moreover, the roles of strategic leaders have also transformed accordingly to deal with building human resources whose talent, creativity, experience and skills can be harnessed for the benefit of the organization. In recent times organizations have evolved into warriors, trying to beat each other at all business sphere. In the highly competitive environment, the utilization of organizational resources is considered very decisive, the organizations with exceptional internal and external resources are more likely to gain a competitive advantage over their competitors (Jackson, 2007). Thus, in viet of Resource-Based View (RBV), the human factor has become vital for getting a competitive advantage, and this could be achieved through a proper practice of HCM in organizations.

Figure 1 adapted from Memon, Mangi & Rohra (2009) explains how an organization could develop its human capital. The Human Capital Development Chain Model explains how a consistent approach can be utilized to develop the human capital of an organization. It starts with the searching and ends at retaining. This activity of searching suitable human capital has become very critical in recent times because getting the human capital of your choice is complicated not an easy one. While the model looks succinct, adequate attention needs to be given not only to the employee but also the provision of relevant support systems that could help equip the employee to prove his skills, abilities, and knowledge for the achievement of competitive advantage to the organization.

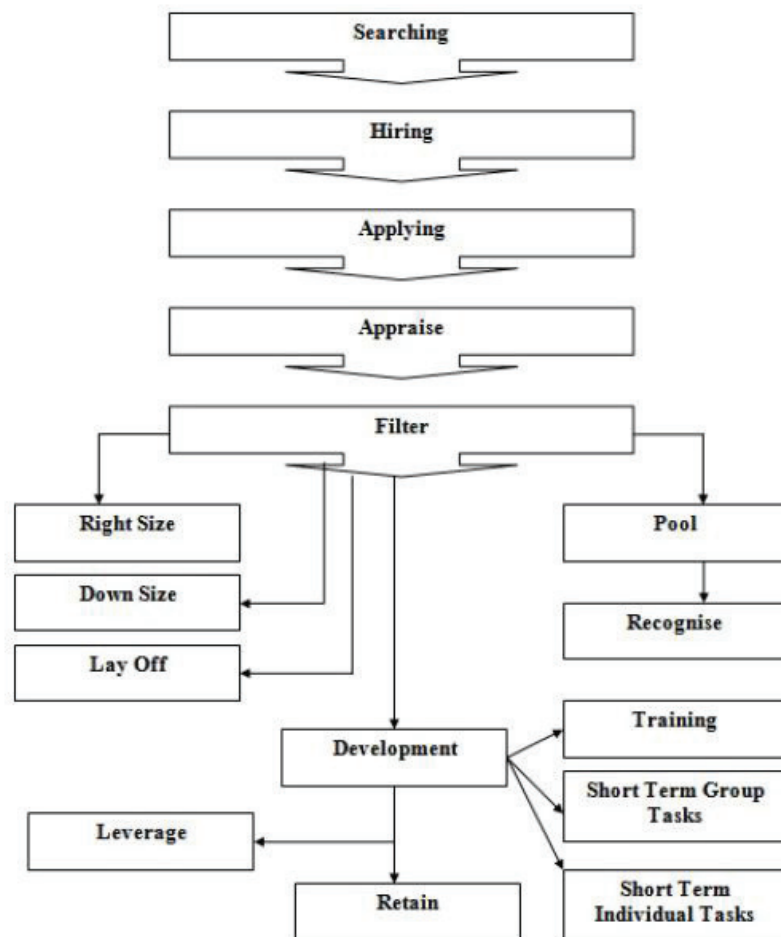


Figure 1: The Human Capital Development Chain  
 Source: Adapted from Memon et al. (2009)

#### 4. Service Delivery and Quality

The concept of service delivery is well embedded in extant quality literature. Service as a term, is used to describe activities performed by firms and others that accompany the sale of a product and that aid in its exchange or its utilization (Peter & Donnelly, 2013). Leon Gorman, a respected former American businessman, simply described service as “a day-in day-out, ongoing, never ending, unremitting, persevering, compassionate type of activity”

(cited in Pearce, 2005, p. 8). By extension, this is supported by Pearce (2005) who contends that a key concept in service delivery is relationship. He explains relationship as the myriad perceptions, expectations, emotions and experiences customers have when they interact with an organization. Unlike tangible products in which quality is often measured against standards, service quality is measured against performance based on the customer's overall impression.

#### 4.1 A Model of Service Quality

Customers determine the quality of service delivery using many dimensions. Parasuraman et al. (1985) proposed ten (10) factors that could determine perceived service quality, which can help organizations understand what usually leads to the gap between what the customer expectations and how the customer viewed the service delivered. Accordingly, Parasuraman et al. (1985) posit that determinants of service quality include dimensions of reliability, responsiveness, competence, access, courtesy, communication, credibility, security, tangibles and knowledge of the customer. Previous research also suggests that customers generally perceive all dimensions of service quality as important regardless of the kind of service being evaluated. Interestingly, customers determine the value of service quality in relation to their particular needs which often create gaps which can lead to customer dissatisfaction. The model shown in Figure 2, dubbed the GAP model was developed by Parasuraman et al. (1985) to depict such gaps and how they can affect either positively or negatively service quality and customer satisfaction.

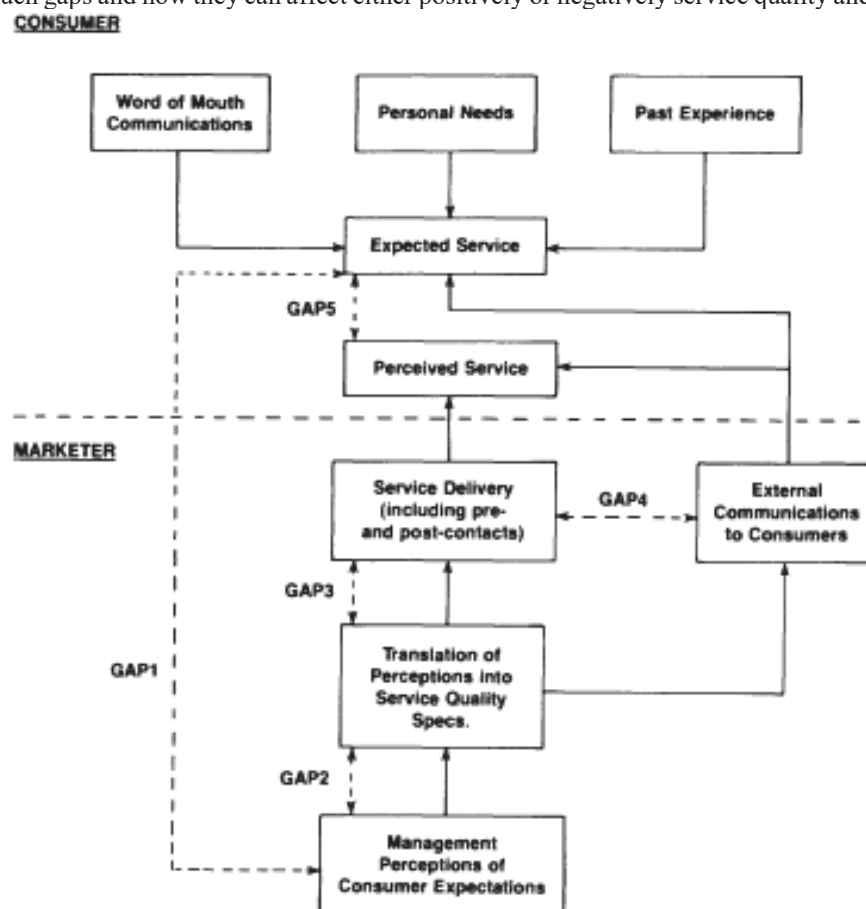


Figure 2: A Model of Service Quality (The Gap Model)  
 Source: Adapted from Parasuraman et al. (1985)

The first gap exists between consumer expectations and management perception. Often, executive perceptions about what consumers expect in a quality service are inconsistent with the consumer expectations. From the point of this study, this gap happens when serious attention is not given to searching and recruiting human capital that already has what it takes to understand customers. This buttresses Ziethaml & Bitners (2000) argument to attract the right people to deal with the sophisticated nature of today's customer. Thus, competent employees are useful in determining what service attributes customers consider important. More so, gaps are created when there is a dissonance between management perceptions of customer expectations and the firm's own service quality specifications. Unless employees know what the company's service specification are and believe that management is committed to those specifications, their performance is likely to fall short of desired levels.

Furthermore, the gap between service quality specifications and actual service quality could create customer

dissatisfaction. Even when guidelines exist for performing services well and treating consumers correctly, high-quality service performance may not be a certainty. High standards must be backed by resources to enable employees to deliver good service. Thus, this standardized service could only be given by organizations that understand the management of their human capital by way of putting in the support systems and retaining the best of employees to deliver service (Mermon et al., 2009; Ziethaml & Bitner, 2000). Besides, good service performance may disappoint some customers if the firm's marketing communications are exaggerated. Hence, creating a gap between service delivery and external communications about the service.

According to Peter and Donnelly (2013), a customer generally perceives the level of service quality as a function of the magnitude and direction of the gap between expected service and perceived service. Therefore, the difference between a customer's expectations which is based on word-of-mouth communications, her/his personal needs and past experiences and the actual experiences with the firm will determine his/her level of satisfaction. This suggests that management needs to take deliberate action steps to close possible gaps and improve customer satisfaction with the firm's service. By extension, having a pool of human capital will enable committed firm to delight their customers.

It is therefore quite clear that human capital management will play a critical role if all firms want to delight customers. For example, there is no way for the organization to understand its customers, be courteous, communicate well and be reliable without a deliberate attempt by the organization to tap into its human assets by making them the most valuable resource through human capital development.

## 5. Human Capital and Service Delivery

The domain of human capital management is the knowledge, skills, abilities and other characteristics of employees that can be accessed by the organization. Also, the acquisition, development, and retention of this capability which are driven by HRM systems (Ployhart, Nyberg, Reilly, & Maltarich, 2014) is very vital to the success of organizations. For example, employee retention is excellent to sustain and improve service delivery in a team; while employee turnover - the depletion of human capital resources adversely affects organizational functioning (Nyberg & Ployhart, 2013).

More so, the success of any organization depends upon its competent and motivated human resources (Mohiuddin, 2008). Many studies have confirmed the critical role of human resource administration in organizations. These human resources represent a vital support of any team, and therefore management should recognize that employees and their behavior represent high forces that can diminish or enhance the effectiveness of every organization (Rahman & Al Mahmum, 2013). Nonetheless, every business is a people business and at the heart of every successful business are the people who make things happen. Human capital is the most valuable resource, which provides the solid foundation needed to build long-term profitability and ongoing success of an organization. It is therefore prudent for businesses to constantly seek new and innovative ways to attract and retain a top-notch workforce and motivate them to perform to their fullest potential (Rahman & Al Mahmum, 2013). Furthermore, Jackson (2007) asserts that an organization's people are its most important asset. People define firms, affect its capacity to perform, and represent the knowledge base of its team. He suggested a strategic human capital plan as an impetus for the effective management of organizations.

Analysis of previous studies in the field of human capital management and service delivery shows that there seems to be a direct relationship between the two variables. In the first place, pursuing any of the key steps of the human capital management proposed by both Memon et al. (2009) and Ziethaml & Bitner (2000) is most likely to result in an enhanced service delivery for the organization. For instance, if a firm can search and attract the right people, it is likely to recruit people with the mental agility and attitude to deal with all manner of customers in the provision of services. Additionally, because service delivery and its attendant service quality are multi-dimensional (Parasuraman et al., 1988), attracting the right people who are multi-dimensional in their skills, attitudes and abilities will help in the provision of services. Research has found out that sociability, helpfulness, and thoughtfulness are some of the characteristics that could lead to the achievement of service quality effectiveness by an organization (Hogar et. al, 1984).

Additionally, a firm taking steps to develop its employees through training and empowerment only set the stage for the provision of quality service delivery. Looking critically at the key determinants of service quality outlined earlier, the only way an organization today will be able to have employees who meet those determinants is when that organization manages its human capital properly through training and empowerment. For instance, an organization could only create employees who are reliable, responsive, competent, accessible, courteous and credible through the ability of the organization to harness its human capital.

Furthermore, most of the gaps that exist in the gap model between the organization and the customer were as a result of communication gaps both within the organization and outside the organization. This usually affects negatively the kind of service delivered by the organization to its customers if the organization fails to work on the gaps. But a firm with an effective human capital management strategy is likely to put in the necessary support systems that will allow it to build and enhance the capacity of its employees to close the various gaps.

## 6. Conclusion

It is clear that when services become homogenous, superior service delivery becomes critical for long lasting competitive advantage. Thus, the paper drew on the service and human resource literatures to suggest that, a firm committed to quality service delivery recognizes the importance of developing employees who have the needed skills in delighting customers. Therefore, empirical studies are needed to examine the effect of having capable human capital on quality service delivery. Additionally, researchers could pursue this study from the perspective of the African continent where there has been an explosion of service in many of its economies, but service delivery and service quality remain very poor compared to the other continents of the world. In addition, service industry managers need to measure the value of human capital overall in their organizations and make efforts to estimate the value of such human capital.

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