Human Capital and Financial Results: A Case Study

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Abstract: If a company aims to succeed at developing its competitive advantage, knowledge assets should be considered as an important resource as it is the raw material from which financial results are obtained. This Case Study aims to determine whether human Capital is presented and valuated in a small company working in the logistics sector, and if it has an impact on the financial performance. Considering this, we have developed a Case Study that utilises a pragmatic and unique, holistic and exploratory approach. Data collection was carried out mainly through interviews and observation centred on Human Capital and on the financial performance, conducted on two elements from different levels of authority and responsibility within the company, a director and an operation employee. A Likert scale of 5 points was used, and the study concluded that both participants interviewed, shared a similar point of view about Human Capital and the financial performance. It was also concluded that the company evaluated is human Capital, in particular, the follow elements: the employee's formation and training, skills, teamwork, internal relations and knowledge share had impact in the financial performance of a firm, and the company had a positive result over the years, although yields have stagnated recently, and expenses have increased due to the current international crisis. Consequently, it was concluded that in those companies, Human Capital was valuated and the case study suggests that there is a relationship with financial performance.

Keywords: human capital, enterprise results, financial results, financial performance, logistics

1. Introduction

The social and business environment is becoming increasingly competitive, hence, if companies want to develop a sustainable competitive advantage, the key is to focus on knowledge based assets, such as those considered in Intellectual Capital. It is considered that the efforts of organizations must go through the incorporation of knowledge in its production and management strategy. Sullivan and Sullivan (2000) state that the number of companies whose value is focused largely on Intellectual Capital has increased dramatically in recent years. The new economy may or may not materialize, but there is no doubt that the next society will be with us soon (Drucker, 2001).Chen, Cheng, and Hwang (2005) suggest that Intellectual Capital not only has a positive impact on present financial performance, it also indicates future financial performance. Considering this we have developed a Case Study focused on whether the Human Capital was present and valuated within a small logistics firm located in Northern Portugal and if it was related with the financial performance of the firm.

Several research papers and literature reviews focus on Intellectual Capital, with some focusing on the measurement perspective of Intellectual Capital such as the Chen, Zhaohui, and Xie (2004) research, with other studies focusing on the influence of Intellectual Capital on different aspects of the firm, such as the study of Human Capital as a key strategic asset of companies (Bontis and Fitz-enz, 2002), the relation of Intellectual Capital with business performance (Bontis et al., 2000), and the relationship of Intellectual Capital with the innovative capacity(Santos-Rodrigues et al., 2011d, Santos-Rodrigues et al., 2011c).When we started this study, at 2010, no similar study was found that related the influence of Human Capital on financial performance, later, Murthy and Mourtisen (2011), relate Intellectual Capital with financial capital in the banking sector, and hence, their suggestion support our study. Furthermore, we follow the methodology

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suggested by Santos-Rodrigues *et.al* (2011c, 2011d) to analyse the influence of Intellectual Capital on financial results.

2. Human capital and finance results

Currently, organizations are concerned with achieving excellence in their performance, and as Stewart (Stewart, 1998) states, Intellectual Capital is the raw material from which the financial results occur. Intellectual Capital management therefore, intends to extract value from the firm's knowledge (Egbu, 2004).Murthy and Mouritsen (2011)contend that a relation between Intellectual Capital (which includes Human Capital) and the firm's financial performance exist, hence, this research study aims to examine a logistic organization to find if there is any relation between Human Capital and financial performance.

Intellectual Capital includes the strategic perspective of intellectual assets and knowledge (Santos-Rodrigues et al., 2011d). The literature tends to explore the different sub-components of Intellectual Capital in detail, and there are three attributes inherent in the Intellectual Capital present in most settings; the result of the collective processes (Mouritsen et al., 2002) has value and the potential to create value (Petrash, 1996, Stewart, 1998, Edvinsson and Sullivan, 1996).

It is internationally accepted that the three main structural components of Intellectual Capital are Human Capital, Structural Capital and Relational Capital (Edvinsson and Malone, 1997, Roos et al., 1997, I.A.D.E., 2003, Stewart, 1998). Accordingly, Human Capital, corresponds in summary form to the resulting value of knowledge (and implementation) of the individuals present and related with the organization (Bontis, 2001, I.A.D.E., 2003).Structural Capital is the value of knowledge present on the organization by the structure of the organization, which includes: formal rules and informal norms (Bontis, 2001, I.A.D.E., 2003). Relational Capital represents the value knowledge generated by the relations of the organization with it environment, including trade relations, partnerships, affiliations and associations. Intellectual Capital is a process which extracts value from existing knowledge in an organization.

The Human Capital, " is the basis of intellectual capital" according to Chen et al (Chen et al., 2004). human capital has been recognized as a vital and creator of value for companies. Cabrita (2008) stresses that human capital is identified as the engine of economic activity, competitiveness and economic prosperity. Bontis and Fitz-Enz (2002) state that "the human capital embodied knowledge, talent and experience of employees". Refers to "the qualities that make people" says Brooking (1996).

One cannot forget that human capital is one of the elements of the organization that deserves much attention because it can create value and competitive advantage for the organization compared to competing companies. For "is an irreplaceable resource and its imitation is imperfect" according to Bontis and Fitz-Enz (2002).

After cited no doubt that human capital is crucial for companies like Brooking says (1996, p. 15), which refers to its importance because "there is no business that can operate without at least one person ". As far as human capital has important implications in terms of the strategy of intellectual capital in the company it is a source of profit in the knowledge economy, "human capital is important because it is a source of innovation and strategic renewal" (Bontis and Fitz-enz, 2002, Bontis, 1999).

In today's business environment, human capital is considered as a major source of competitive advantage, Human capital is essential to the success of the organization because it affects their performance and gives the organization collective intelligence. Stewart (Stewart, 1998) says that "when people work together create something that is worth more than the sum of their individual efforts. The difference is profit, return on capital. "

3. Methodology

The methodology used for this investigation was the Case Study, embracing a more exploratory analysis approach as the information on which this study is based is under-researched. Yin (1994) considers this method among the more difficult and complex to formulate, as it has not been sufficiently and fully researched as yet, which could lead to the investigation being compromised.

The study was guided to answer the research question and the structure suggested by Santos-Rodrigues et al.(Santos-Rodrigues et al., 2012, Santos-Rodrigues et al., 2011a, Santos-Rodrigues et al., 2011b, *Santos-Rodrigues* et al., 2010) was followed, i.e., the component of Intellectual Capital, namely Human Capital, was investigated separately, and a link with finance performance examined. Guided by the literature review, the study aimed to ascertain whether the Human Capital was considered important by the company, and whether a link of these element with financial performance, could be identified. To do so the following model was followed:

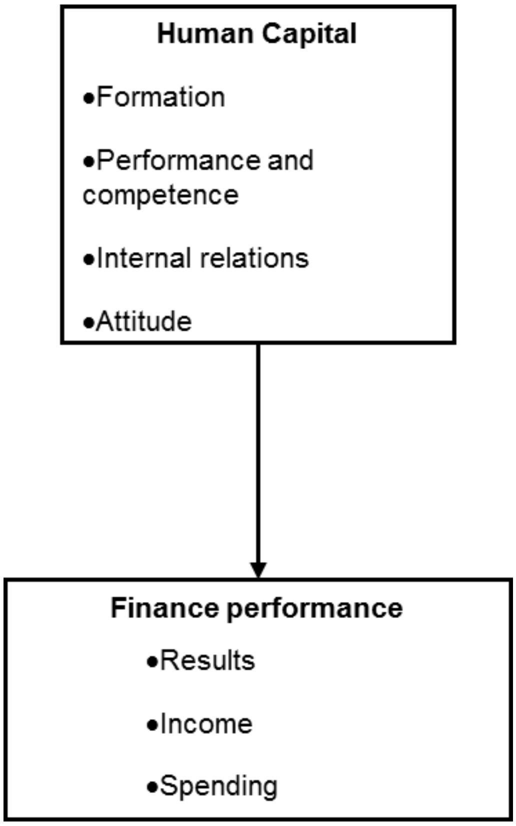

Figure 1: Model

To guide the research, a research protocol was developed; a pragmatic or mixed approach was used, characterized by using some objectivity and subjectivity. A single, holistic and exploratory Case Study was used, including a Portuguese transport company XYZ (a fictitious name as a request for confidentiality), with eleven employees distributed by two hierarchical levels, the Directors level and the traffic department. This company has been providing transport services since 1948, both nationally and internationally, and is legally classified as a private limited company, has a family management style with an annual average turnover of € 900,000.00.Although it is a small company, it is committed to customer service excellence, social responsibility, and internationalization as some of its strategic priorities.

For the data collection phase, a semi structured interview was designed, addressing Intellectual Capital, where the component of Human Capital was considered, and in terms of the financial performance, focus was placed on the results, and income and spending. The interviews followed a formal script (conducted in an informal setting), with the study questionnaire containing the questions in the form of statements, using a 5 point Likert scale classified by “don’t agree” to “ totally agree”. Additionally, observations were performed and the firm records studied. The interviews were conducted in August and September 2011.

4. Results

In terms of Human Capital, the study findings suggest that employee training is considered an important element of the company.The combination and appropriate application of company resources depend on the existing knowledge, such as training and knowledge of employees as the knowledge-based resources are usually difficult to emulate and can provide a sustainable competitive advantage for companies in the global era. Additionally, the training of the employees was not very specialized; however, the company supports their employees in updating their training, knowing the advantages that the company can attain.

Similarly, the competence, performance and experience of employees are of central importance to the performance of the company. The company in this study confirmed this, and it isreiterated byAndriessen (2004) who contends that companies have realized that inner experience and human experience, exclusively individual, can indeed create milestones in business performance. In this study the perception was that employees were not deemed the best in the industry despite being very skilled, however, the organization utilises the skills of their employees appropriately and maximally, prefiguring that they hire the best professionals in the industry; they considered that the employees could do better, despite having positive results. The company considers their recruitment policy to be very effective (although not ideal) and that they do hire the best employees available .The point of disagreement is between the two hierarchical levels: the Director level suggests that it will be difficult to replace an employee (valuing the tacit knowledge of workers), and the traffic employee believes that no one is irreplaceable.

Additionally, the internal relationships and teamwork elements are very important for the development of employees and the company, with no exception to the company in the study. Steward (1998) contends that when people work together, they create something that is worth more than the sum of their individual efforts .The difference is profit, and return on capital. The study highlighted that when there is teamwork and cooperation, the result is better. Both interviewees promoted the development of internal relationships within the company but also considered that this effort is not recognized. However, it is considered that knowledge transfer (tacit and explicit) is a reality in the company and that everyone values the work of each other.

Finally, we must stress the importance of attitude, Santos-Rodrigues, Lousinha, and Cranfield (2012) contend that a component of Human Capital is attitude, which translates into behaviour, motivation, performance and ethics of the staff, that lead to good performance of the company, confirmed in this study. In the Case Study, the interviewed considered that employees are motivated and feel satisfied; a situation that is reflected in the achievement of company objectives .In this case it seems that employees express their opinions in order to check the profitability of the company and are motivated and satisfied. As for the ability of directors to influence staff to commit themselves, it seems that the effort made in this respect, is not recognized or managed. Furthermore, there is no consensual opinion about the change attitude of the directors.

5. Conclusions

It is reported in the literature that the goal of companies is to achieve their best result / performance, i.e. profit. Cabrita (2008) advocates that high performance is central to the concern of all organizations. As profit is the difference between income and expenditure, the yield should be higher than the expenses; this is the situation with the case company under review It has obtained positive results, hence achieving profit over time, even though their income has stagnated, and despite this, it continues to exhibit a profit, which the respondents contend is due to the different elements and components of Intellectual Capital. These elements include, among others, good and competent employees of the company, encouraging teamwork, ensuring that the fleet was in good working condition, and addressing the primary and on-going concern of the company which was to satisfy the requirements of their customers, reflected in the longevity of relationships and repeat procurement.

This case suggests that the Human Capital, is considered and valued, yet differently by two different hierarchical levels within the company, and, also suggest that the financial performance of the company studied is good. This case study suggests therefore, that there is a potential relationship between the Human Capital and the company's financial performance.

In summary, one can conclude that the research complied with its aims and objectives, and found that Human Capital is important for the company within this case, and that a direct relationship with the financial performance of the logistics industry, particularly the company within the case, exists. Employees and their knowledge are the key ingredient for the company's development and subsequent financial performance.

Therefore, the above suggests that Human Capital has a positive impact on the financial performance of the company studied. However, the research results suggests that the logistics industry, in particular this case, recognizes the importance of Human Capital to the success of the industry in relation to sustainability and competitiveness, but like most national and international companies, they are unaware of how to identify the element of Intellectual Capital, and how to exploit it and manage it. Intellectual Capital management aims to extract the value of knowledge (Egbu, 2004), which provides competitive advantage and "competitive advantage depends on the identification, pooling and management of knowledge assets, Intellectual Capital (Santos-Rodrigues et al., 2011e).

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