

## Human Capital Utilization Through Effective HRM Practices

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**Abstract:** Human resource management practices are under serious considerations to identify their effective utilization for human capital. Leadership also intervenes as a strong player for effective employee management. A typology of employment mode based on the leadership style fit in matching it with the requirement of different employee groups is provided. Leadership styles must be aligned with the underlying objectives and psychological obligation that varies in every group of employees.

**Key words:** Human Resource Management • Human Capital • Leadership theories • Employment modes

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### INTRODUCTION

The importance of HRM practices to a firm's success cannot be undermined. The nature of a firm human capital and its management practices directly affect the employee as well as firm's performance. However the firm's HRM practices differ for employment groups based on certain variations. There exists variability in the corporations of workers and different objectives of HR utilization. Leader's effectiveness in motivating and satisfying employees is influenced by the adaptability leadership behaviours and styles to match their characteristics of employment groups. According to contingency approach to leadership, situational characteristics are also vital for leader effectiveness along with leader himself. Verom and Yetton's [1] normative model, appropriate situational use of decisions can be more effective for leaders. According to LXM (Leader-member exchange) theory, the interaction of leaders with followers is not identical but varies with circumstances. Leadership styles adaptability depends on the different circumstances. Similarly according to another situational leadership theory [2] effectiveness of leadership is dependent on situational variables in which tasks are adjusted with followers so as to increase the likelihood of success. Finally, the path-goal theory postulates that in order to be effective leaders engage in certain behaviours so as to compliment subordinates environment and abilities that would help in compensating for deficiencies, thus ultimately increases subordinates satisfaction and their work performance. In short leadership acknowledges situational variables influencing leader attributes and effectiveness.

In addition leadership is a multilevel construct depending on the leader, the followers and their relationship. Effectiveness of leader or his practices depends not only on the leaders or the followers but also their interaction [3-6].

Despite leadership being a critical component of effective employee management its research at work unit level of analysis is infrequent. Its examining at group level of analysis is also equally important due to the difference in employee group's characteristics and expectations. In order to have an effective management, varied effectiveness of different leadership styles across employment groups must be addressed [7-9]. The purpose of this analysis is to extend strategic HRM research by incorporating leadership literature in the development of an integrated typology of employment mode. Based on discussed theories, leadership styles differ in employment modes. However the basic purpose of the suggested typology is to define the relationship between leadership styles and its effectiveness at the employment group level of analysis.

### MATERIALS AND METHODS

**Employment Arrangements:** Based on literatures certain employment arrangements are said to exist within firms. Oysterman [10] identified four employment subsystems - industrial, salaried, craft and secondary models. Underlying objectives and psychological obligations of every employment arrangement vary with the nature of employment.

Different conception of employment relationships is proposed. Rouser proposed dimensions- the time frame of relationship and the embedded ness in the organization for example internalization vs. externalization.

Tsui *et al.* [24] categorized four different approaches- long-term balanced, short-term balanced, underinvestment and overinvestment. HR architecture was proposed by Lepak and Snell [11] for reasons. First, their model includes different employment modes, employment relationship and HR management practices that provide a basis to match leadership types with employee groups. Second they categorize employment arrangements its four groups - contracting, acquisition or job based. Lepak and Snell [12] later found that the employment modes proposed in their model simultaneously exist in those organizations that are distinct from each other.

Values of human capital depend on its contribution to the competitive advantage determining whether there is a requirement for a firm to internalize or externalize the employment. Employment decisions on internalization vs. externalization and short term contract vs. long term contract are influenced by the associated transactional cost.

Lepak and Snell [12] believes that firms use contractual arrangements with short-term jobs contributing directly to their competitive positions. To ensure appropriate and in accordance of work with contract teams, this employment mode involve specific performance requirement and limited organizational involvement. Job-based approach is followed to secure skilled employee from external market for valuable skills so as to spend little human capital for training and development costs. Their exists a third type of employment arrangement in which human capital is unique to a firm but does not help in adding high strategic value to the firm [12]. This form is called as an alliance/partnership. Alliances are external relationship including mutual trust, information sharing, consultancy; maintenance of partnership relies, etc. Firm encourages long-term employment relationship, nurture organizational commitment and in employee training and development of knowledge-based employment mode.

**Leadership Styles:** Leader behaviors are theoretically categorized into prominent types of styles of leadership - supporter leadership, determine leadership, achievement-oriented leadership and participative leadership. For each style, several theoretical and research based theories are derived.

Pearce *et al.* [13] empirically proved that all the four leadership styles differ from each other. This framework is built on the well-established transactional-transformational parading integrating two other distinct leadership styles thus empowering leadership. Leader effectiveness is a varying characteristic.

Derivative leader focus on complying their followers by using certain behaviours, like assigned goals, direction and punishment. Transactional leadership emphasizes on long term goals and inspires followers to pursue the vision and built trust and commitment. A style in which followers are empowered and encouraged to take initiative and decisions at their own is called an “empowering leadership”. Empowering leadership fosters a sense of trust, enjoyment and motivation at work among employees. Its roots lie in behaviour self management [14], social cognitive theory [15], cognitive behaviour modification [15, 16], participative goal setting [17] and self leadership theory [18].

#### **Matching Leadership Styles with Employment Modes:**

First of all it is necessary to define effectiveness. Situational factors find out the qualities of leader and tell that how the leader should be efficacious. The effective way to measure the effectiveness of leaders are (1) At which stage the system or organizations fulfil their goals and (2) how the leaders meet the acolytes’ beliefs and needs.

Leadership effectiveness is defined as “how leader motivates the employees to fulfil their goals”. Business firms depend on employee groups to recognize different aims and fulfil the objectives [19]. To accomplish those tasks, the organizations use human recourse management practices and styles that express different exchange responsibilities between the employee and the firm [20]. Leadership styles should be logical with the requirements so as to become effective leader. Reposing on leadership styles (e.g., LMX theory [21, 22]; Path goal theory [23]; Situational leadership theory [24] and human resource architecture position [19] and the needs, wants in employment exchange.

The proposed typology focuses on the employment group level instead of individual level of analysis. Subsisting research propose that at employment level employees tend to possess same type of skills and are managed in same level by the organizations and firms.

**Contracting- Directive Leadership:** Many organizations are increasing their use of contract workers to be compromising in labour market. These workers are

employed for temporary jobs. According to Rousseau [25], the relationship for these employees should be short term oriented and this type of relationship is analogue to the job focused relationship between employee and employer [20].

The organizations do not await any attachment from the employees [19]. They just want work on time by the employees. The leaders provide direction for the work and for this they set goals and complete their tasks. The leader should focus on securing obligation with contractual terms and conditions.

The leader realizes their employees about their tasks by giving them mission and offering them rewards and incentives [26]. Employees can also use their skills to fulfil their work and assignments.

The directive leadership has been criticized that they do not fulfil the commitment that they make for their employees. Lack of commitment is not essential to organizational functioning. When there is clear description of job then this also meets the expectations of employees and contractual workers and the tasks which are performed under contractual employment are not valuable to the organizations. For example, the transactional leader has quality of interactive goal setting such as in management by objective [27].

The transactional leaders give dynamic role to the followers [28, 29]. Transactional leadership focus on the transactional exchange to make the contract worker feel of the things which may direct them to the lower and poor performance. Transformational and empowering leadership concentrate on developing employee commitment to the leader. These leadership postures and styles focus and introduce role ambiguity to the job which leads the contract worker to do their job not efficiently and effectively [30, 31]. The features of directive leadership are logical and coherent with leadership demands and psychological expectations of contract.

**Proposition 1:** Directive leadership will be more effective for contract workers than transactional, transformational, or empowering leadership styles.

**Job-Based Employment- Transactional Leadership:** Transactional leadership style is very effective. According to human resource management organizations may gain employees from the open labour market who already own skills and can do their job in time [19]. Firms give value to their market price to understand the benefits which are created by skilled workers [32]. Lepak & Snell [19] suggested that this employment relationship is

dependent because knowledge, skill and abilities of these workers are not firm-specific. These employees are not fixed and carry-over their skills to ten thousand organizations.

In market-oriented relationship the employment exchange is strongly arbitrated by price mechanism [33]. The exchange relationship between the leader and the employees are prevailed by economic exchange and leaders. Transactional leadership emphasize on intellectual exchange of awards for their performance to motivate their employees [27, 34, 35, 36]. The social exchange relationship between a transactional leader and employees is moved by reactivity and responsiveness.

The focus on trusting on just rewards happens simultaneously with the characteristics of job based employment. Transactional leaders provide reward to their employees to satisfy them. They also motivate their employees to achieve the objectives of the organizations. Other leadership styles are not very effective in leading their employees; they should have some control on their employees [33]. So, finally directive leadership focus on power of commands is not suitable for the employees. Transformational and empowering leadership focuses on employees' commitment and attachment to the firms.

**Proposition 2:** Transactional leadership style will be more effective for job-based employee group than directive, transformational and empowering leadership style.

**Alliance/Partnership- Transformational Leadership:** In transformational leadership, human capital is internalized for creating customer value that is formed only in alliance/partnership employment mode. This mode take out benefits related with internalization and externalization along with minimizing the cost. Employment alliances are executed when a single party is not able to obtain their certain goal and get collaborated with another party in order to achieve the common goal, thus both party receives their own benefit by reducing risk of opportunism and risks related with job security.

In the formation of alliances, leaders must know that the utilization of combine value formed by human capital worth more than that of value produced individually. Therefore leaders need to establish mutual understanding, cooperation and utmost good faith with their partners in order to create a strong partnership. Such requirements for strong manipulation can be met by leaders under transformational styles. Transformational leaders are also competent of communicating principle goals, corresponding high expectations and assuring

subordinates along with transforming follower to find higher level of personal needs such as self-actualization, identification and individualization.

Transformational leaders can better convince alliance partners that by mutual cooperation they can easily and effectively achieve their common goals along with their own benefits and such leadership may also reorganize and improve the possible dissimilarities of different parties in alliance, which make them able to cooperate and utilize their own skills and abilities with each other to get the end instead of getting on their own interest.

Other leadership styles such as directive leadership doesn't support creativity thereby group members' expectations are not satisfactorily met, also lack collaboration and mutual effort in alliances. While transactional leadership is also not able to make and develop mutual trust and understanding between the parties. Similarly transactional leadership gives too much freedom to employees in making their decisions and in the tasks they perform due to which they may deviate from the common goals. Thus transformational leadership style will be more effective for alliances employee's than directive, transactional or empowering leadership styles.

**Proposition 3:** Transformational leadership style will be more effective for alliances-employee group than directive, transactional, or empowering leadership styles.

**Knowledge-Based Employment-Empowering Leadership:** According to Lepak and Snell [19], for human partners that are distinctive and very important, firms use internally-oriented knowledge-based employment mode. As these employees are beneficial to the firm and the abilities and unique skills they possess help firms in achieving competitive advantage, firms mostly internally develop this sort of human resources for both financial and strategic matters. Firms can get organizational citizenship and increased performance of such employees by involving them in decision-making.

Arthur's commitment maximization system, Lawler's high involvement approach, Ouchi and Johnson's type Z organization, Rousseau's long-term insiders and Walton's commitment strategy, all emphasize participation of employees in decision-making and problem solving, give them training opportunities and reward them for what they produce. As a result employees are expected to show more loyalty to the organization as well as high interest in their job.

These expectations are consistent with the logic of empowering leadership. The purpose of empowering leaders is to help the followers to discover their competencies so that they can fully contribute to the organization. The functions of empowering leadership are.

- Encouraging opportunity thinking,
- Emphasizing self-leadership,
- Employing participative goal setting,
- Fostering teamwork and,
- Facilitating the transition of followers to self-leaders.

Empowering leadership style is effective for managing knowledge-based employee group. It gives employees free-hand in performing different tasks which increases their interests in their work activities, also they acquire new skills, knowledge and abilities to show better performance. It also promotes culture that supports Responsibility-taking, self-leadership and self improvement. Finally this style focuses on participative management, high commitment and involvement at work and self-management.

Keeping in view all of the above we may conclude that empowering leadership style is the one which is most suitable for this employment mode and directive and transactional leaderships can't achieve high commitment and self management and improvement because here employees are not given as much freedom and participation in decision-making as in empowering leadership. Similarly in transformational leadership power remains with the leader and employees can't participate in creating the vision. Thus they are not expected to show highest degree of commitment, responsibility-taking and creativity. Hence empowering leadership is the best one for this employment mode.

**Proposition 4:** Empowering leadership will be more effective for managing knowledge-based employee group than directive, transactional, or transformational leadership styles.

## DISCUSSION

In this article different leadership styles are proposed for different employment modes. The propositions given in the article are based on different employment modes in an organization and leadership styles that best fulfil the requirements of these employment modes. This article contributes to both strategic human resource management and leadership literature.

First, it helps aligning the human resource management with effective leadership which would result in the increased performance of employees and organization as a whole. Prior to this article research has been conducted on the strategic management of human capital but it hasn't focused on the role of leadership in management of human capital.

Second, in the leadership literature several contingent theories of leadership have been presented such as situational leadership theory and path-goal theory but again they are not integrated with human resource management. This article is the first effort to apply contingent theories of leadership to management of human capital.

We may also use a combination of two or more leadership styles for certain employment group, if it seems to be effective. Such as for achieving common goals, emphasizing joint efforts and fostering cooperation between parties, transformational leadership seems to be more effective but at the same time we may also use transactional leadership to emphasize the mutual benefits of the parties.

An area for future research focuses on finding out the effectiveness of leader from perspectives other than leadership styles. For example according to LMX (Leader-Member Exchange) theory leaders who possess high quality LMX are usually more effective than those who possess low quality LMX. Similarly for knowledge-based employee group, leaders having high amount of socio-political intelligence (SPIQ) may be more effective than those having lower amount of it.

Moreover when different leadership styles are used for different groups within the same organization then employees in some of the groups may feel unsatisfactory and think of it as unjust. For example if you as a leader use empowering leadership style for one group and at the same time directive style for another group then the followers of directive leadership may perceive it as unequal and unfair. So further research can be conducted to examine the behaviours of the employees, when different leadership styles are used for different groups.

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