



## OPTIMAL USE OF HUMAN CAPITAL IN AN ORGANIZATION

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### JEL Classification

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### ABSTRACT

Human capital is the most valuable asset of an organization. Given that human being does not consist of just flesh and blood and he has its own spiritual world, it is clear that any event which occurs in organization will be affecting his psychology in the positive or negative way and therefore this will influence the activities of organizations. Sometimes providing motivation may not be sufficient while dealing with some problems in organizations. In this study, some principles and rules are discussed for optimal use of human capital in an organization. In addition to increasing motivation, giving some responsibilities to employees, providing them to make constructive criticism and competition, fair distribution of tasks among them and using synergy's power to reach goals are some rules for optimal use of human capital discussed in this study.

## 1. INTRODUCTION

The rapid change and development in information and technology force organizations to establish flexible organizational structures that means the ability to adapt changes and differences. This situation pushes organizations to create more dynamic structures and it affects strategies of human resources, operating modes, resource utilization, production processes and marketing style of organizations. These efforts of adaptation to environment are considered as following the trend of change (Brockbank, 1997:65). The reactions against changes and efforts of gaining specifications required by the conditions of today's fierce competition have pushed organizations to focus on their own human capital. As widely known, core competency is a specific factor that a business sees as central to the way the company or its employees work (Hamel & Prahalad, 1990). Today, organizations consider their human resources as a significant type of core competence and by differentiating their human resource policies from other organizations they aim to expand into new end markets.

In today's world, both for-profit and non-profit organizations pay attention to conduct their activities within the framework of appropriate policies. Policies help organizations to finish their activities in less time and by less cost. If it is an organization that aims to make profit, it gets the chance to have an advantage in competition. By this way it reaches its specific and general goals by less cost and in less time. Kwon and Rupp (2013) argue that firms that invest more in any human capital subjects (compared with those who do not) may stand to better mitigate the replacement costs of high-performer turnover, owing to the increased human capital. If it is a non-profit organization like non-governmental organizations, it can reach its target in less time.

The way to achieve this success is to use organization's human capital in accordance with the requirements of the current time. Motivation is one of the ways of this and the method of increasing organizational performance by motivating employees is used frequently by modern organizations. It is possible to provide increase in efficiency in an organization by rewarding organization's staff and this in turn provides increase in motivation level of personnel. In line with this idea, corporate social capital pertains to the possibility of identifying and developing more rewarding opportunities (Pennings et al., 1998). Although this is a desired situation by organizations, sometimes it is inevitable to experience internal problems and conflicts. For instance, sometimes it is not expected to look friendly for other employees to an employee who continuously wins awards. Or, unfair distribution of tasks and rewards may cause some personnel who are valuable to the organization to dislike organization.

Human capital and human resource literature forms the basic source of this study. During literature review, some individual and organizational problems faced by managers and researchers are observed in some studies. To overcome these troubles, some suggestions will be given by synthesizing personal experiences and previous studies.

Organizations have been seen that they may face different troubles about their human resources during different processes. For instance, manager's repressive attitudes, favoritism, perceiving employees as robots, retention of unskilled manpower, award imbalances, stress, low morale and unmet expectations of employees can be cited among these problems.

It is possible to give more problematic examples related to human capital. This study investigates how human capital can be used optimally and how it can be a key factor in the success of organizations. Additionally, the study aims to reveal the ways of minimizing conflicts in organizations and find some practical solutions to reach organizational goals. After analyzing studies about human capital, this study has been intended to bring a new perspective to the literature by purposing relay race viewpoint, constructive criticism and competition, fair distribution of tasks and synergy as significant ways of optimal use of human capital.

For this purpose, literature review about human capital is given in the following section. Then, in order to explain some factors of optimal use of human capital and give some managerial clues to the practitioners, the flow of the study is organized for delineating relay race viewpoint, providing constructive criticism and competition, fair distribution of tasks and using the positive effect of synergy. Finally conclusion part is given in the last section of the paper.

## **2. LITERATURE SURVEY**

### **2.1. Human Capital**

Many organizations emphasize that resources must be used effectively to maximize efficiency and profit. The most important factor that will improve effectiveness of an organization is human. Therefore human is crucial for all parts of organizations and it is important to use that resource efficiently. In many human resource management studies, it is discussed that human is the most distinctive factor in the success of organizations.

Human is a physical, intellectual, emotional, social, political and spiritual being and he is the most sensitive one in the world to the changes and improvements (Rao, 1996).

Human capital means the sum of all human factors of organization's staff like experience, ability, knowledge and skills (Edvinsson & Malone, 1997:34). Human capital is the individual-specific knowledge that each employee possesses (Bontis et.al., 2000). It is a value-added resource and it is created by each individual in the organization. Employees, the human capital of organizations, lease their time, efforts and capabilities to institutions in order to provide benefit for the organizations. Thus, human capital can generate sustained rents to the degree that it is specific to the originating firm and adjustment costs in a new environment prevent immediate expropriation by rivals (Hatch & Dyer, 2004). This benefit must be financial benefit especially for profit aimed organizations. Firms try to obtain appropriate human capital for themselves. If an individual leaves the organization, his human capital goes along with him. Therefore, as Kinney (1999:1) said, human capital can be gained and it is renewable.

Human capital is the most important asset of organizations and its importance is seen in every department from research-development to public relations. Human capital is not only the part of intellectual capital, but also its main source and sometimes it may be limiting factor of intellectual capital.

Instead of being a static asset, human capital is a dynamic factor that creates value when it is used effectively. According to traditional accounting approach human capital, the essential element of intellectual capital, is seen as goodwill. It is generally known that there is no difference between book value and market value of these concepts and they consist of invisible values.

Though human capital has been studied for many years and there are many definitions of it, there have been no serious attempts about accounting and reporting it in financial statements. Human capital is considered as the combination of labor factors like technical ability, learning ability, commitment, qualifications and the desire to share information. Providing, supporting and improving these factors must be among the organizational objectives.

Studies on human capital focus on two points. The first one is to make personal skills collective. Second one is to incorporate these collective skills and competencies into organizational capital. Human capital is divided into three basic features; skills, relations and values. Job related ability of staff is called as professional ability. The quality of an employee's relationship with his colleagues is named as social skill and the success of his relationships with his external environment is known as commercial skill. Second basic feature, the relations, is focusing on the success of employees' interactions and shares with his colleagues which are parts of social skill. Finally, values are related to having a same language and a common organizational culture among employees who work in the same institution (Arikboğa, 2003:87- 88).

Skilled human capital generally means trained employees. Well trained human resources are expected to result in more productive human capital (Hitt et al., 2001). Therefore training expenditures will serve as investment in human capital for organizations. However training sometimes may not be needed in some areas.

For jobs that require simple manual labor, switching to automation can be more profitable. Even if some routine and low-skilled jobs are done manually, they do not add value to human capital. This means a waste of capital (Stewart, 1997:94). In an organization, if employees address their time and talents mostly to innovation-generating activities, it can be said that this organization uses its human capital effectively.

Human capital in organizations is more than the sum of employees' abilities and capabilities. Human capital consists of information gained by individuals and personnel networks that cover organization. Skaggs and Youndt (2004) argue that organizations employ higher levels of human capital in order to deal with the heightened information flows within and outside the organization. In today's world, organizations that have knowledge and provide their human resources to use this knowledge are observed that their level of productivity, profitability and market value are higher than other organizations (Şamiloğlu, 2002: 86). Firm-specific human capital is a resource for knowledge creation through learning by doing (Hitt et al., 2001) and learning by making practice is believed to increase quality of human capita. Firms that consistently outperform their rivals through management of learning sustain their cost advantage over the long term (Dyer and Hatch, 2003).

Organizations should take into account knowledge, skill, capacity, flexibility, capability and the success of human resources in order to fulfill the tasks that serve the purpose of organization (Edvinsson & Malone, 1997; Wright & McMahan, 1992). Human that take part in the production processes was configured as a form of capital in former economies. Many theoretical and empirical studies concentrate on the leading organizations that provide economic benefits by investing in human (Sweetland, 1996). Human skills are classified under the name of physical assets by relating the output efficiency of employees in organizations. In addition to economic costs of employees, a direct relationship between educational level and work experience of employees has also been studied in the literature for a long time (Wright & McMahan, 1992).

Hiring talented people was important previously, today, organizations making research on the effective use of human resources have discovered flexible and intangible combination of human capital. Human in a company enhances the operational activity of tangible assets and activates intangible assets (J.Fitz-enz, 2001). Increasing employees' capabilities has a direct impact on the financial results of the companies (Becker et al., 2001).

Barney (1991) endorses the effective use of human capital that is a source of sustainable competitive advantage. The study of Barney (1995) recapitulated the importance of the combination of tangible and intangible resources which have a complicated structure from both individual and social perspective and they are not generally homogeneous in different organizations. This point of view is supported by studies of Finkelstein and Hambrick (1996) that show the importance of human factor in organizational performance and strategic choices. To achieve competitive advantage in an organization, studies should be conducted on the combination of flexible human resource activities and skills of employees. In the context of professional services, skilled human capital has been identified as the fundamental resource of organizations (Erramilli & Rao, 1993; von Nordenflycht, 2010).

The competitive advantage which involves interaction and complex structure of people and which is based on the success of human capital is harder to gain than the competitive advantage that is taken by physical and financial capital (Teece, 1998).

In the theory of human capital which is basically supported by the Becker (1964), there is no difference between focusing on human capital, in particular tangible and intangible dimensions of it, and resource-based perspective of the organization. The effect of tangible human capital on organizations is seen in return rates of investments that are in the development process. At the same time, it is a research on preventing transfer of skills from an organization to another organization and determination of relationship between future productivity and labor cost. On the other hand, intangible aspect of human provides achieving competitive strategy that is improved by acquisition and sharing of knowledge (Barney, 1991; Hamel & Prahalad, 1990).

In order to encourage creativeness in the organization, rewarding systems should take into consideration individual performance levels and employee's openness to sharing information with others. Nowadays, in order to attract qualified people, in addition to providing employees with salary and bonus, investors behave their staff as shareholders of the organization to make them focus on their job and to encourage them working as a team for the success of organization ([www.arge.com/default.aspx?mn](http://www.arge.com/default.aspx?mn), 21.02.2014).

The contribution of human capital to organization's performance is seen in flexible integration of organization's staff and experts with human resources having capacity, skills and technical knowledge (Edvinsson & Malone, 1997). Human capital does not belong to organizations. However when an organization hires an employee, human capital that is created by retaining and improving employees affects the organization-specific conversion costs. Asset outflow for employees is considered as the cost of investment instead of considering expenditure. In today's world, some large-scale organizations focus on internal value of each employee. At the same time, increase in value of the human capital may strongly affect the decision of internalized employment (Lepak & Snell, 1999).

Lepak and Snell (1999), by attributing to the resource-based view of the organizations, recommend retaining qualified human capital that creates value to organizations that make use of market opportunities, neutralize potential threats, enhance efficiency and productivity and allow development of strategy. Human capital is the opportunity value of an organization that wants to achieve competitive advantage. For this reason, some features related to human capital like expertise and skills are among the most important sources of organizations. If a firm can successfully make the combination of these intangible features with financial resources, it is inevitable for that firm to increase its performance.

In 2003, the study which was conducted by Mercer on 200 senior executive showed that 92% of them believe that human capital management greatly affects customer satisfaction, 82% of them also believe that it affects profitability positively and 72% believe that it fosters new product development and invention (Mercer, 2003).

There is a relationship between the corporate world and human resource management that provides to achieve competitive advantage. Human resource management follows a new consistent strategy in employee relations (Legge, 1995).

Forcing employee's limited capacity to maximize profits and increase efficiency will transform the employees to producer robots that serve exploitation system or it will transform them to unproductive assets. Low productivity, low quality, stress, breaching of promise, lack of motivation, fighting and some bad words will create a negative atmosphere in the organization. Traditional management approach in an oppressive manner is not suitable for today's business world. If today's employees feel that they are exploited by managers, they sometimes behave negatively against their managers and organizations. Going even further, they will initiate reaction and embark upon to struggle. A research study showed that both aggressive and reckless behaviors were the resultant reactions against oppressive leaders (Luthans, 2007).

In addition to improving quality of products, managers and leaders of organizations have to be more sensitive in fostering employees' initiative. Today, if an organization wishes to achieve competitive advantage, it should give importance to the development of human resource which is a crucial factor in creating skilled, more producing and adaptable workforce (Porter & Jenkins, 1996). Even though a very positive work climate is created by organizations, due to low levels of motivation and job dissatisfaction, a performance under the average job satisfaction levels and unbalanced distribution of rewards have been observed in some organizations. In today's business environment, increasing motivation and providing job satisfaction are among the most important tasks of organizations. Some factors which are must be integrated into organizational processes like caring about employee health, establishment of the evaluation centers, flexible reward systems, bonus plans, goal-oriented performance appraisals and flexible working programs play crucial role in the success of today's organizations. Besides, the issues described below will be helping the organizations to execute organizational policies efficiently (Hiltrop, 1996).

### **3. OPTIMAL USE OF HUMAN CAPITAL**

Because effective use of all resources is extremely important for organizations, taking into consideration that just human manages all other resources, organizational activities should be organized according to the human psychology. In this part, suggestions related to individual and team psychology will be covered. In order to increase effectiveness of human capital, relay race viewpoint, constructive criticism and competition, fair distribution of tasks and synergy are recommended as optimal usage factors in this study.

#### **3.1. Relay Race Viewpoint**

In the business world experiencing intense competition, any organization that wants to achieve its objectives must take advantage of all experts and wise people. To increase profit, some modern organizations use various tools like using technological innovations, adapting to a variety of management models developed by management units, giving importance to education expenditures and costs etc.

It is known that competition in many areas generally leads to improvement of quality. This competition is for the benefit of both organization and groups who demand goods and services. However, there are some negative aspects of competition because there are always higher positions and there are candidates of these positions in organizations.

Those who cannot be shared, like positions or resources, sometimes create vital problems in organizations.

If there are many candidates to the higher positions in an organization, experiencing conflicts may be inevitable. In such case, the important task of administration is to assign employees who have the most appropriate criteria with a fair selection process. Besides, expressing all employees that this process is a relay race will be preventing internal conflicts. Regardless of whoever is assigned to a position, the executive selection policy developed by top managers must satisfy all staff. In other words, every qualified person that could not be assigned to higher positions must be made to believe that assigned person will do the job better than him and others. The idea of helping others may arise in the organization in case everybody knows these positions will not be possessed by assigned persons forever, this is a relay race and the most important thing is the future success of the organization. To conclude, main focus must be on the rules and principles instead of individuals especially in selection process.

### **3.2. Constructive Criticism and Competition**

Criticizing others is one of the easiest jobs of life. People that criticize destructively damage themselves, their environment and their organizations. However qualified people's criticism about the area of their expertise is supposed to be constructive in the organization. Criticism that aims to carry out activities in a better way can be described as constructive criticism. While interpreting and assessing the mistakes of employees in organizations, managers should take into consideration fairness and it must be known that everybody makes mistakes.

Constructive criticism is a gift to human being. Because everybody loves oneself, he cannot see his own mistakes; even he sees, he comments in his favor. If someone does not show his mistakes him in an appropriate manner, chain of mistakes chases each other. Warning the person who has a "scorpion" (means mistake) on his neck is a humanitarian duty. Being indifferent to mistakes can cost vital mistakes in the future. Related to this subject, there is a proverb of "smash snake's head when it is young", which is often used among Turkish people. It means to stop something at an early stage. Therefore human beings should see constructive criticism as a gift when they are warned in case of making mistake.

Tolerating criticism is must-have item of working life. People should welcome criticisms as they welcome to compliments. Individuals and organizations operating with this awareness are closer to achieving success. However, the task of expressing employee's mistakes to them should be assigned to the managers who are responsible for these employees.

If an organization is compared to human body, each element is engaged in fulfilling the task assigned to it, like in body organs. As it is known, a man's hand does not compete with the other hand, one of the eyes does not criticize the other one, the tongue does not object to ear, the heart does not see the shame of soul and besides, they complement each other's shortcomings and defects, they help others to meet needs and to fulfill tasks, otherwise that person's life darkens, his soul suffers and also the body becomes damaged due to psychological problems.

Likewise, the cogwheel of a factory does not compete with others and it doesn't prevent others work and also it does not make negative criticism when it sees others fault. On the contrary, with their all abilities, they help others to achieve general goals. With a true alliance and solidarity, they all together achieve the objectives of organization (Nursi, 1985).

If organizations are compared to human or a factory, each cell of the human eventually is important for people to have a healthy life and likewise each bolt of factory is crucial in trouble-free operation of the factory. Likewise, helping by stronger hand owners those who are carrying a very heavy burden on their shoulders provides increase in job satisfaction of burden carrier's.

To summarize, criticism must have a function that reaches employees and organizations their goals as petrol help the car to reach its target. Likewise, competition among employees should be in favor of organization.

### **3.3. Fair Distribution of Tasks**

Employees' competence, expertise and honesty mostly depends on fair implementation of recruitment, wage, performance appraisal, promotion and education policies in the organization (Güredin, 2007:325).

To achieve goals, organizations need to employ employees with regard to the necessary qualities that human resources needed. Recruitment regarding just sake or feelings and employing people in their non-expertise areas can cause non-optimal use of qualified human capital and delay in achieving the objectives of the organization.

Human resource planning specialists should determine the required quality of human resources for each unit and they should employ according to this determination. Assignment of organization's qualified human capital in accordance with this planning and ensuring employees that they will continue their mission as they show high performance will lead to specialization in the business because of constantly doing the same job. For instance, within normal working hours, while previously producing a product in 1 hour, perhaps this production-time will be reduced to 48 minutes and while producing 8 products in daily 8-hour running time, in such case 10 products will be produced. The organizations, regardless of using per piece wage system or time-saving wage system, will be providing financial and non-financial benefits because increase of production will reduce labor costs per unit. Reduction in unit costs will make organization achieve competitive advantage against its competitors especially that produce goods and services in the same sector. Achieving competitive advantage will provide increase of sales and therefore increase in profitability. Given that the main objectives of the organizations are profitability and sustaining organizational life, organizations will eventually reach these goals by this way.

Another important issue is the fair distribution of tasks. Being sensitive on this issue by managers will increase employees' sense of confidence against managers. This will be minimizing potential conflicts that may arise within the organization.



### **3.4. Synergy**

Organizations should benefit from the idea of employees to provide high financial rate of return from financial and physical resources. In human resource practices, with the integration of complementary and talented employees, an organization that is difficult to imitate can use these integrated resources for achieving competitive advantage (Barney, 1995). Employees' useful skills and capacities provide an increase in value of human capital and therefore this provides meeting demands of unexpected environmental changes. As a result of this harmonization process, organization which has limited value will create its own internal values (Pennings & Witteloostuijn, 1998). Consequently, organization-specific human capital will subsequently make a positive impact on organizational and individual performance.

Synergy is when the result is greater than the sum of the parts. It is created when things work in concert together to create an outcome that is in some way of more value than the total of what the individual inputs is (<http://ergonomics.about.com/od/glossary/g/defsynergy.htm>, 01.03.2014). This can be explained by a simple mathematical formula;

$$3 \times 1 = 3$$

If three 1's cooperate with true alliance and solidarity in goals, synergy occurred by coming side by side will make three different 1's 111, which is one hundred and eleven (Nursi, 1985:161). If synergy becomes a part of the culture of organizations, this increasing power can be gained.

Another factor that will help to create synergistic power is creating family environment for employees of the organization. It can be said that if there is solidarity among members of the family, family ties are expected to be strong. If organization is compared to a family, sustaining organization's life and providing profitability depend on the solidarity of employees. Managers should not left alone employees in their happy and sad moments. In order to achieve success in this subject, a clear network of communication among employees should be established and maintained.

By encouraging entrepreneurship and innovation, human resource managers aiming to obtain maximum efficiency from human capital should develop systems which will enable employees to improve their knowledge and information sharing capabilities within the organization. Thus, with the help of instruments like organizational culture, organizational climate and organizational commitment, the integration of individual and organization should be provided (Şamiloğlu, 2002:106 - 107).

Teamwork is extremely important in total quality management. Team working provides significant benefits in enhancing organizational performance. First of all, it is possible to diagnose and solve organizational problems accurately by teamwork. At the same time, teamwork is one of the most effective ways of making employees to participate in management of organization. By the help of teamwork, it is possible to provide information flow and accurate communication in the organization. Besides, it is extremely important in gaining stronger energy, achieving synergy, discovering innovation and invention in the organization (Aktan, 1999).

Synergistic management means the usage of production factors as a whole and conversion of them to a common energy for high-performance. More clearly, utilizing all resources such as leadership system, hardware, human etc. is required for providing synergy effect in order to achieve organizational goals.

Synergistic management focuses on the importance of communication and interaction between the functions of organization. Likewise, in organizations, maintaining close communication between design, production, sales and research functions can reveal synergy effect. This causes increase in quality, efficiency, productivity, profitability, faster product development etc. in the organization. For instance, if engineers working in R & D department and persons in charge in manufacturing, sales and marketing processes take part in the same team work, it may bring up new ideas and practices that affect the success of the organization. Edwards W. Deming, one of the founders of new management philosophy, focused on the importance of continuous exchange and interaction between research, design, production and sales departments to make production according to customer expectations. According to Deming, it is important to focus on all functions instead of focusing on a single function and also it is crucial to increase the level of communication and interaction between these functions ([www.biriyilik.com](http://www.biriyilik.com) › İktisat İşletme ve Ekonomi, 19.02.2014).

If teamwork is not organized well and applied effectively, some problems may emerge and even existing problems may be worsen in the organization. When teamwork is not ruled properly, the problem of exclusion of some group members may arise. In addition, some of the group members may cause organization to lose ability to analyze and to lose flexibility by welcoming to all negative situations. Additionally, while some groups are working a lot, if some others are working less than them, it generally causes conflicts.

#### **4. CONCLUSION**

Modern management approach focuses on increasing employees' motivation and theories of personal needs in order to investigate the reasons that direct members to work effectively. Human capital consists of both tangible and intangible aspects of human resources. The physical appearance of an organization's human capital is related with only recruitment and selection process and labor hiring process. The most important aspect of human capital is the intangible aspect of it. Retention of qualified human capital in the long-term depends on creating politics that give importance to spiritual and intangible aspect of human. As long as this is provided, it can be said that employees of the organization will not only be human beings who are working in the organization just for salary but also they will behave as the owners of the organization and they will focus on the organization's objectives.

This will provide the organization high morale and motivation as well as increase in productivity. As a result of these, the market value of both organization and individual will certainly increase.

This study focuses on how human capital can be used optimally and how it can be a key factor in the success of organizations. Relay race viewpoint, constructive criticism and competition, fair distribution of tasks and synergy are discussed as a rule for increasing the quality of human capital of organizations.

These four key factors were evaluated from the perspectives of different human capital literature instruments. Thus this study is the first that stresses on optimal use of human capital in an organization.

In interpreting the results of this study, it is important to keep several issues in mind. First, in addition to literature, self-reports have been used to assess human capital factors. Different practitioners may reach different results because of different personal experiences and perspectives. Although the study provides a number of contributions, one should not overgeneralize its findings. Second, because this study is limited to only author's perspectives and previous literature, an experimental study can give more precise results. Therefore results of this study require a strong confirmation process and empirical applications. It seems important to inquire about other factors that foster optimal use of human capital for future research. For instance, human capital selection, employee training, organizational culture or carrier options etc. can be handled as some other titles for the next studies.

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