Author: Kong, Eric
Email address: ekong@csu.edu.au
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The Human Capital and Human Resource Management Relationships in Non-profit Organisations: Misunderstanding and Implication

By

Eric Kong
Charles Sturt University
School of Commerce, Locked Bag 588, Wagga Wagga,
NSW 2678, Australia

ekong@csu.edu.au
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**Abstract:** Through qualitative in-depth semi-structure interviews with 35 senior non-profit executives in 22 non-profit organisations (NPOs) in Australia, it was found that human capital (HC) and human resource management (HRM) were perceived to be identical and interchangeable. However, the two concepts are conceptually different. Drawing from the interview data, non-profit executives’ strategic decision-making in relation to knowledge development, application, and dissemination was distorted due to the misunderstanding of the two concepts. Thus the contribution of the paper is to provide non-profit executives, particularly who are directly involved in human resource management, an improved understanding of the two concepts which leads to a better implementation of human resource strategy.
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1 Introduction

Human capital (HC) and human resource management (HRM) are two closely related and yet fundamentally different concepts. That is the point put forth by the volume of literature on the subjects, yet when talking to practitioners in the non-profit sector there seem to be a melding of the two concepts. Both HC and HRM concern the human aspects of an organisation but, they are fundamentally different. HC stresses the human impact within an organisation on knowledge creation, the diffusion and utilisation of knowledge for strategic decision making (Wright, McMahan and McWilliams, 1994). HRM predominantly focuses on the functional aspects of human resource related issues within an organisation (Paauwe and Boselie, 2005). Strategic human resource management (SHRM), which emerged as a macro-oriented HRM approach, primarily focuses on the relationships among HRM functions and ensures that the functions are fully integrated into organisational strategic objectives (Guest, 1989). Thus although both SHRM and HC are linked with the strategic decision making within an organisation, they are also drawn from two fundamentally different perspectives.

As confirmed by interview data gathered from 35 non-profit executives through qualitative in-depth semi-structure interviews in 22 Australian non-profit organisations (NPOs), it was discovered that HC was often mistaken as one of the human resource functions. HC and HRM were often perceived to be identical and interchangeable. The key implication of the misunderstanding of the similar but different concepts was that HC
was often perceived as having a micro-oriented focus with a short-term view rather than a macro-oriented perspective of the development of knowledge-based skills with a long term strategic purpose. As a result, the utilisation of knowledge as a source of innovation and strategic renewal was largely overlooked. This oversight of non-profit executives resulted in strategic decision-making in relation to knowledge development, application, and dissemination to be distorted.

This paper argues that non-profit executives must have a clear understanding of the similarities and differences of the two concepts. Like their government and for-profit counterparts, NPOs must utilise the full power of HC that is held with the organisational members of the organisations in today’s knowledge economy. Therefore the importance of HC cannot be understated or NPOs may run a risk of making inappropriate or even inaccurate strategic decisions.

The key contributions of this paper are threefold. Firstly, very little systematic research has delved into the two seemingly similar yet, different concepts: HRM and HC. Using NPOs as a case, this paper offers a better understanding of the two salient concepts. Secondly, the paper explains the implication that may result from the misunderstanding of HC in the non-profit environment. Finally, a synthetic conceptual model is proposed in which the relationships between HC, SHRM and HRM will be discussed. The model aids non-profit executives to recognise the differences between HC, SHRM and HRM in relation to the utilisation of intellectual resources.

This paper will first provide a brief overview of the literature with particular attention to the comparison of, firstly, HC and HRM, and then HC and SHRM. After a short outline of the research methodology the findings of the interview data gathered from the
participating NPO executives are presented. This will lead into a discussion of the misunderstanding of HC and HRM and its implication for NPOs. A synthetic conceptual framework in relation to HC, SHRM and HRM interrelationships in the non-profit environment is proposed. Finally, the paper will conclude with recommendations for future research.

2 Human capital (HC) and human resource management (HRM)

HC is a key component of the intellectual capital (IC) construct (Bontis, et al., 1999; Bontis and Fitz-enz, 2002; Edvinsson, 2002; Edvinsson and Malone, 1997; Sveiby, 1997). According to Sullivan (1998) and Stewart (1997), any intellectual resource that can contribute to value added, both in monetary terms or in the degree of usefulness, for an organisation can be categorised as IC. Thus within the IC literature, HC represents the knowledge stock such as skills and abilities which can be used to manage what employees know in organisations (Wright and McMahan, 1992).

HC includes various human resource elements, including attitude, competencies, experience and skills, and the innovativeness and talents of people (Bontis, 2002; Choo and Bontis, 2002; Guerrero, 2003; Roos and Jacobsen, 1999; Roos, et al., 1997). It represents the tacit knowledge that is embedded in the minds of people in organisations (Bontis, 1999; Bontis, Crossan and Hulland, 2002). In the case of NPOs, HC represents the knowledge, skills and experience of non-profit employees and volunteers. HC helps organisations, which include NPOs, to effectively respond to environmental changes through sensing the need for changes, developing strategies to meet the changes and efficiently implementing the strategies for complex and dynamic environments (Wright et
Thus HC is a source of innovation and strategic renewal for all organisations (Bontis, 2002; Bontis, Keow and Richardson, 2000; Webster, 2000).

HRM, on the other hand, pre-dominantly focuses on human resource functions. Paauwe and Boselie (2005) define HRM as being concerned with HR practices or systems in organisations such as ensuring commitment from employees; creating a focus on values, mission and purpose; developing trust and designing organisational structure that maximises efficiency and effectiveness, and policy design and implementation. Thus HRM consists of various micro-oriented human resource functions including recruitment, training, appraisal, rewards and anything that can be used to manage employee relations in organisations (Boxall and Purcell, 2000).

Despite that both HC and HRM are concerned with human aspects of the organisations, they are fundamentally different. The former, HC, pre-dominantly focuses on the creation, diffusion and utilisation of collective human intelligence for strategic decision making while the later, HRM, stresses functional aspects of human resource related issues. In other words, HC focuses on the macro-oriented perspective of knowledge management related activities such as how knowledge can be strategically harnessed (Bontis, 2002; Bontis et al., 2000; Webster, 2000) and HRM stresses the micro-oriented, relatively short-term purpose of HRM functions such as recruitment and performance appraisal (Boxall and Purcell, 2000). Nevertheless, there is a strong link between HC and HRM in NPOs (Rodwell and Teo, 2004).

From a people management perspective, HRM processes embrace significant human knowledge and may help to facilitate and enhance HC in NPOs (Rodwell and Teo, 2004). Specific HRM functions can be utilised to enhance the HC of employees (Youndt, et al.,
1996). For instance, comprehensive training is a standard means of building and
developing the skills and competence of existing non-profit employees and volunteers;
selective staffing can be utilised as a means of minimising the mismatch between
prospective non-profit employees and volunteers and the objectives of the organisations;
and equitable reward and feedback systems provide a mechanism for retaining and
motivating high calibre personnel (Rodwell and Teo, 2004).

From a knowledge management perspective, non-profit employees and volunteers
carry HC when they join a NPO, though their level of HC increases with time in the
organisation as they gain experience and new skills. A higher level of HC is often
associated with greater productivity and higher incomes or compensation (Wilson and
Larson, 2002). In the case of NPOs, a higher level of HC likely leads to more efficient
non-profit operations and thus enhances organisational performance. On the other hand, a
loss of organisational memory due to the departure of non-profit employees and
volunteers may pose a threat to NPOs.

Individuals take their talent, skills and tacit knowledge with them when they leave an
organisation (Bontis et al., 2000; Grasenick and Low, 2004; Roos et al., 1997). This is
particularly true to volunteers because they may leave NPOs at a very short notice or
sometimes with no notice taking with them their knowledge and skills whereas paid staff
are required to give notice (Kong, 2003a). It is therefore in the interests of human
resource managers to recruit, develop and retain the best and brightest employees as a
means of achieving sustained competitive advantage (Bontis et al., 2002). HRM functions
such as recruitment and retention are increasingly challenging for NPOs in the
competitive non-profit environment and thus there is a real need for ongoing training and
development coupled with meaningful work opportunities that stress work congruence and organisational fit for both paid and unpaid organisational members (Lynn, 2003). Therefore, both HC and HRM are salient concepts in NPOs.

The closely tied relationships between HC and HRM may explain why the two salient concepts were often perceived to be the same concept amongst the non-profit executives in the participating organisations in this study.

3 Human capital (HC) and strategic human resource management (SHRM)

A much more macro-oriented approach of HRM, strategic human resource management (SHRM) has emerged in the academic literature in the last two decades. SHRM mainly focuses on the relationships among HRM functions and ensures that the functions are ‘fully integrated into strategic planning; that HRM policies cohere both across policy areas and across hierarchies; and that HRM practices are accepted and used by line managers as part of their everyday work’ (Guest, 1989, p.49). SHRM emphasises on the macro aspects of integrating human resource deployments and activities, which enable organisations to achieve their strategic goals (Wright and McMahan, 1992). It also provides an understanding why some organisations manage their HRM functions more effectively than others (Boxall and Purcell, 2000).

HC, on the other hand, is concerned with the holistic view of understanding of the development of internal intellectual resources. Again, SHRM may help to enhance the level of HC in the organisations. For instance, an integrated strategic HRM approach involves designing and implementing a set of internally consistent human resource practices and policies that attempt to harness a NPO’s HC, particularly non-profit
employees and volunteers’ collective knowledge, skills and abilities, towards the achievement of its organisational objectives or social mission (Rodwell and Teo, 2004).

Due to the complexity of today’s non-profit environment, non-profit managers are required to have more knowledge and skills to strategically manage the combination of both paid employees and volunteers in NPOs than they do to manage an entirely paid staff or a staff comprised solely of volunteers (Kong, 2003b; Lyons, 2001). With adequate HC, human resource strategies are likely to be processed effectively because highly competent non-profit managers are able to perform human resource related activities more productively. Nevertheless, SHRM should not be confused with HC. Accordingly, SHRM did not seem to be able to untie the misunderstanding of HC.

This paper aims to explore the implication of the misunderstanding of HC and HRM in relation to non-profit executives’ strategic decision-making in knowledge management activities. This paper argues that even though there is a close link between HC and HRM, the misunderstanding of HC should not be allowed; particularly since the implication of that misunderstanding is not well understood. In order to fulfil that objective, this paper employs a qualitative analysis methodology which utilises in-depth, semi-structured interviews, including both face-to-face and telephone interviewing approaches, as the primary data collection instrument. The next section outlines the methods used by this research study.

4 Methods

HC in its nature involves tacit knowledge, thus extremely difficult to quantify. Also, the HC and HRM research is a relatively new area of enquiry. It was important, therefore, to allow a degree of flexibility during the research process in order to explore and examine
the understanding of the concepts of HC and HRM among non-profit executives in NPOs. Due to this reasoning a qualitative approach adopting in-depth, semi-structured interviews of 45 to 60 minutes was conducted. Australian NPOs that delivered services directly to their clients coupled with an established formal strategic planning mechanism within the organisations was the chosen sample population. The rationale for the selection criteria was to ensure that the chosen organisations would cover both macro and micro oriented activities in regards to issues related to HC, SHRM and HRM.

Based on the sampling selection criteria, 51 NPOs were contacted via e-mail and telephone, of which 22 agreed to participate. The service provision areas of the organisations covered a wide range of non-profit services (e.g. child welfare, youth services, family support services, services for people with disabilities, services for the elderly, and emergency services). In total 35 non-profit executives (16 women and 19 men) in key strategic management positions within these organisations agreed to participate. Among the interviewees, 8 worked in the for-profit sector, 9 worked in the public sector prior to joining their current organisations and the remaining 18 interviewees were always in the non-profit sector. The average number of years for the interviewees working in their current organisations was over 6 years with a range of less than one year to 40 years experience.

Interviewees were asked a range of questions regarding the concepts of HC and HRM in their organisations. More specifically, the participants provided insights into their perception of the two salient concepts in particular in the aspect of strategic decision making in their organisations. Intensive semi-structured interviews were conducted over a ten month period (August 2003 – May 2004). An ongoing analysis was conducted
throughout the entire interview process which ensured the justification of theoretical saturation which determined whether data collection activities should end or carry on (Charmaz, 2003; Richards, 2005; Strauss and Corbin, 1998). Theoretical saturation occurs when no pertinent or new data emerge; the properties and dimensions of emerging categories are well developed; and the relationships between categories have been established and validated through the data collected (Strauss and Corbin, 1998). In this case theoretical saturation occurred after 27 interviews and 8 further interviews were conducted to validate the emergent categories.

A digital recorder was used to record conversations for all interviews, which ensured the accuracy of data collection and subsequent interview transcription (Johnson, 2002). All interviewees gave consent for taping. Interview transcripts and research notes were directly input into NVivo, a computer-aided data analysis software program for qualitative research. The data were then coded into units of meaning (known as ‘free nodes’ in NVivo) according to the exact words of the participant (Creswell, 1998), which were then further analysed to capture the emergent properties and categories of the common themes (Strauss and Corbin, 1998). To maintain the confidentiality of the participants each participant was assigned a code (e.g. NPO Exec-1) and the numerical order was not indicative of the interview chronology.

5 Research Findings and Implication

The interview data revealed that the majority of the participants perceived that HC and HRM were identical and therefore interchangeable. As a result, when participants were asked to give examples on how they enhanced HC in their organisations, the concepts of
HC and HRM were often blurred. The blur of the two concepts was illustrated in the following example where the interviewee perceived HC as the same as staff recruitment.

Human capital? We try to recruit people with skills and expertise. And we have very carefully targeted in a particular industry and sector and we try to get somebody who has the experience, passion and expertise. So we want to have someone who is trained and has experience (NPO Exec-11).

Although the above quote demonstrated that the participant understood the importance of bringing knowledge into the organisation, the primary focus was on recruiting and the importance of the ability to recruit. However, recruiting sufficient number of organisational members with skills and expertise does not necessary mean that knowledge is developed, applied and shared in NPOs. It becomes meaningless for non-profit executives to focus on the number of organisational members recruited in the organisations, though the number may provide some insight. It is however more important that non-profit executives should pay attention on how willingly the competent organisational members are prepared to develop, apply and share knowledge.

Also illustrated from NPO Exec-11’s example above was that the significance of HC might be overlooked. Non-profit executives’ attention may be diverted to focusing on acquiring knowledge and skills from outside rather than developing knowledge and skills from inside. As emerged from the interview data, some participants took the view that recruiting was a way to acquire knowledge and skills instantly. The following example confirmed the above point.

My work is knowledge based, communication based and network based, so prior coming to here I worked eight years in [a different organisation] and before that I worked in another organisation and all that time I have been doing the same sort of policy and research stuff, so they offer me a job to
come here because basically they want to purchase my network and knowledge, which means they have got the capacity instantly (NPO Exec-23).

Since HC is not developed internally, an organisation may become more vulnerable particularly at times when employees depart the organisation taking with them their talent, skills and tacit knowledge (Bontis et al., 2000; Grasenick and Low, 2004; Roos et al., 1997). This analysis offers a strategic insight to non-profit executives in relation to planning human resource strategy.

Training was another HRM function that was frequently mentioned by the participants in the interviews when they were asked to describe the role of HC in their organisations. The following example indicated that the participating organisation was willing to invest in their employees by providing them with appropriate training.

… there is also a very strong support of training within our organisation, so somebody needs training, we have our internal training programs. Next week there is a training workshop on discipline and managing discipline situation, so we do have quite a bit of internal training programs. We want to continue to develop skills and competency and training (NPO Exec-2).

Training can be ‘instrumental in increasing the knowledge and competence of individuals’ (Johannessen and Olsen, 2003, p.283). Savery and Luks (2004) also perceive training as a ‘precursor’ for organisations to improve their productivity. Either way, the success of an organisation clearly depends on the skills and actions of its people and a key determinant of this will be the way that organisational members are developed (Barton and Delbridge, 2001). Thus training is important to NPOs as it helps to facilitate knowledge development, application, and dissemination. The notion that training is
instrumental in increasing the knowledge and competence of non-profit employees in the participating organisations is evidenced in the following example.

How can we improve and enhance the knowledge and skills of our staff? I think it is done by training. We train our staff. So we are adding their knowledge and skills (NPO Exec-12).

However, as the blur of HC and HRM, it appeared that only formal training was recognised as a HRM function. Accordingly, as emerged from the interview data, the participating organisations seemed to be investing considerable amount of money in training their employees.

So a large amount of our resources is to deploy into training people [non-profit employees]. And we are very much involved with the University [in an Australian state] and other places in training people every year because people move on, a lot of our staff are female and younger female often move on after a few years. They get married, they have maternity leave. We are always in need of replenishing staff. If we don’t do that we can’t sustain in the future (NPO Exec-8).

We send our executives on overseas study trips to U.S. and U.K. (NPO Exec-14).

I have been in (a major American university) twice in the last two years, just learning the best way to measure our performance and I have found specific courses in (a major American university). They are in terribly useful (NPO Exec-27).

The concept of HC is about facilitating knowledge development, application and dissemination. The process of enhancing HC does not always require a substantial amount of resources. Indeed, informal communications can also be a very effective technique to facilitate knowledge sharing. This notion, however, was overlooked in the
majority of the participants. This paper argues that an improved understanding of the HC and HRM concepts may enhance non-profit leaders’ awareness of both formal and informal training to the leverage of HC in NPOs.

In short, the research findings from the interview data showed that the majority of the participants perceived that HC and HRM were identical and therefore interchangeable. Such a perception led to an overlook of the HC concept in the organisations as the participants perceived that knowledge and skills were easier to acquire from outside and other form of training such as informal knowledge sharing was insignificant. As a result, the importance of HC in the organisations was profoundly affected.

The implication of the misunderstanding of HC and HRM was that HC might be perceived as carrying a relatively short-term purpose which could instantly be removed, added, deployed and replaced. The following example illustrated the point that there was a perception that HC could be instantly added and/or replaced.

The organisation is growing and has changed. To set our mission higher and work harder, we need to acquire new team members with new knowledge and skills. All of these have been achieved since our new CEO joined in [at the end of last year]. I joined in [the beginning of this year]. The [operation] executive joined in [the same month], we have changed [one of] the [management function] executive last month and now a new executive starts on Monday … we achieved all these in ten months (NPO Exec-12).

As emerged from the interview data, the view that HC was mistaken as carrying a short-term purpose was extended to the whole NPO. The following quote demonstrated the point.

We recognise that our existing [management function] team did not have enough human capital, so we then have a complete review of our
In addition, coming from the interview data, 14 of the total 35 participants worked in their organisations for less than three years. Of which, four of the 14 participants were newly recruited because new non-profit executive positions were created as a result of organisational growth or an extension of new non-profit operations.

Hiring more professionals with specialised expertise does not always imply that NPOs are taking a more short-term view of HC. However, as supported by the data, the alarming phenomenon was that when organisational members did not have sufficient or adequate HC, some of the participating organisations replaced part of a team or in some cases, even an entire team without considering other options such as on-the job training as an alternative to strengthen the level of HC. However, given the wholesale nature of the personnel changes, the observation that HC was taken as a short-term view can be considered supported.

The negative impact of this short-term view of HC is that the long term strategic significance of HC might be reduced or even eliminated. In other words, it appears from this sample that non-profit executives were less willing to focus on how to facilitate knowledge diffusion and creation such as informal mentoring, knowledge sharing, networking programs and any other activities that help to develop knowledge, skills and competencies.

A strategic insight for non-profit executives from this analysis is that they should not only look at what knowledge and skills they have embraced, but they also need to focus on how to facilitate knowledge and skills effectively. Stating it differently, it is not only...
about how to manage HRM functions, but also how to facilitate HC effectively. Again, without a clear understanding of the two seemingly very similar concepts: HRM and HC, non-profit executives’ decision making may be distorted.

Furthermore, if non-profit executives do not clearly understand what the underpinning HC concept represents, they may be running a risk of mismatching their valuable organisational resources with their strategic objectives and thus losing opportunities in the competitive non-profit environment. This analysis offers another critical insight to non-profit executives in designing, implementing and evaluating long-term non-profit strategies in support of enhancing and sustaining the level of HC in the organisations.

6 A synthetic conceptual model

A synthetic conceptual model is developed on the basis of a broad review of the current literature and a critical analysis of the interview data to illustrate the relationships between HC, SHRM and HRM. The model is shown in Figure 1.

Figure 1 here

The synthetic conceptual model helps non-profit executives to clarify the differences between the concepts of HC, SHRM and HRM and recognise the key functions of the three concepts in relation to the utilisation of intellectual resources. The model also aids non-profit executives to understand the importance of the close relationships between HC, SHRM and HRM. As can be seen in Figure 1, HC and SHRM are clearly set out on the left-hand side which represents the macro-oriented perspective and HRM is positioned on the right-hand side with the micro-oriented perspective. The model clearly
distinguishes the distinctive functions of the two groups; that is the macro- and micro-oriented perspectives of human resource related issues in organisations.

The knowledge flow in between HC, SHRM and HRM represents the relationships between these three concepts. These relationships may include the development, facilitation and dissemination of knowledge and the transfer of knowledge from one concept to another; from one perspective to another. The notion that knowledge flowed between the concepts of HC, SHRM and HRM was illustrated in the following example.

... the knowledge that our staff have in dealing with issues such as homelessness ... and because they have been doing that for so long they are totally involved with the issues of homelessness. They can advise on various strategies to be with homelessness (NPO Exec-15).

As emerged from NPO Exec-15’s quote, the ‘various strategies’ were taken to include strategic human resource strategies in the organisation as well. Thus HC helps to provide accurate information in relation to human resource related practices and strategic human resources management issues in NPOs.

Also, the flow of knowledge can go backward as illustrated in the synthetic conceptual model in Figure 1. HRM can inform non-profit executives to plan SHRM, and thus leads to an enhanced HC in NPOs. As illustrated in the following example, a good relationship between strategic management team and general employees helps to facilitate strategic planning, which ultimately helps to enhance HC in the organisation.

I think our strategic management executives are in various contacts with other staff in the organisation ... We are currently in the process of developing a strategic plan for the next three years and the process will be carried out in various consultations across the country and with focus group of staff in all of the states and in all of our regions. So the good link
between the strategic management team and staff helps the management team to get input from our staff. So the strategic plan will reflect the thinking of as many of the staff as possible (NPO Exec-15).

A two-way communication strategic management process aids to develop an informed human resource strategy, which likely involves strategic decisions that enhance the collective knowledge, skills and experience of non-profit employees and volunteers; or in other words, HC. However, if HC is mistaken as HRM, the strategic role of HC will likely be overlooked.

In short, the synthetic conceptual model as proposed in this paper helps non-profit executives to clarify the differences between HC, SHRM and HRM. It also assists non-profit executives to recognise the important relationships between the concepts of HC, SHRM and HC in their organisations.

7 Conclusion

The view that HC and HRM played a significant role in the strategic management of the participating organisations was generally accepted by the participants. Drawing from the interview data, this paper argues that HC and HRM were identical and therefore interchangeable was a prevalent misconception. HC and HRM are two fundamentally different concepts. HC represents the collective human intelligence while HRM is related to human resource functions.

This paper argues that the implication of the misunderstanding of HC and HRM could be profound. HC might be mistaken as a human resource function with a short-term view rather than a macro-oriented perspective of the development of knowledge-based skills with a long term strategic purpose in the organisations. Thus the salient effect is that non-
profit executives’ strategic decision-making in relation to knowledge management activities might be distorted. This paper contributes to an improved understanding of the two concepts: HC and HRM, which will lead to a better implementation of human resource strategy in organisations.

However, the implication of the misunderstanding of HC and HRM does not only limit to non-profit executives in Australia. This is a potential research area to explore how non-profit executives from different countries may perceive the two salient concepts and whether the same misconception may occur. Further research could examine the misunderstanding of the two concepts across countries to test the conceptual model developed in the current article. An improved understanding of the two concepts from a global business perspective will likely provide a better system of implementation of human resource strategies not only for human resource managers, but also for all international business managers.

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**Figure 1 – The Relationships between HC, SHRM and HRM**