

# Human Potential is a Way to Create a Competitive Advantage for Industrial Companies

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**Abstract:** Human potential is a strategy for future success, and is the tools by which companies can achieve sustainability. The article provides an analysis of the factors of production in Russian companies, and explain human potential, competitive advantage, Classification of factors affecting production efficiency, identifies the most important productive factors that companies can invest in. The importance of the research topic is due to the fact that, despite the rather long period of research on the elements involved in the production process, a general systematic approach to the assessment of productive factors has not yet been developed. The authors classified the productive elements into three groups (technical, human potential and organizational). The authors made a calculation by using the (value-added) method for group of Russian companies for the period 2014-2018. The study reached a set of conclusions about the applicability of the method evaluating the factors of production, in order to determine the best investment factors for companies. The study finding that the factor (human potential) is the best investment for companies. Therefore, the study recommended companies direct their spending towards human capital, invest in human potential, it is more valuable to companies than other assets. Companies must manage and develop it. Thus, human potential is the main driver of companies, and its investment leads company's ownership of a competitive and continuous advantage in the markets.

**Keywords:** human potential, competitive advantage, Classification of factors affecting production efficiency.

## Introduction:

The scope of interest in human potential is increasing by describing it as, the main driver in corporate performance, which is the main advantage of all companies both the private and public sectors. These

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assets are efficient, and thus human potential is a strategy for future success, and is the tools by which companies can achieve sustainability.

The research problem appears, identifying the most important productive factors in order to direct the company's investment to achieve economic value. through research, the most important productive factors were identified, studied and evaluated to reach the destination of companies for investment.

And through the analysis of the financial statements of the group Russian industrial companies to the period (2014-2018) in order to identify the best productive factors to investment . Note (this period was chosen in order to reach the real results before the global economic crisis coved19.(

The most important productive factors have been reached, which achieves the best investments for industrial companies, as the human factor is the most important element in the production process.

The study found the importance of investing in human potential as the main driver in the production process.

In the modern economy, companies direct their expenditures to human assets, which is the tendency towards investing in human potential that are of high value to companies more than other assets. So companies need to manage and grow it.

## 1- Human potential

### 1-1-The concept of human potential:

Economic progress and the scientific and technological revolution have led to a direct increase in the role of the human potential in economic and social development in recent decades. And innovative ideas, management solutions and inventions in all fields that greatly affect not only the competitiveness of the organization, but also the social and economic progress and the life of human as an integral part.

There are numerous studies and research dealing with human potential, and there is no general agreement on a unified definition of this term, and the following is a set of definitions of human potential from the point of view of various researchers.

**(Al-Anazi )** defined it as a group of employees who have mental abilities and whose components are experience, knowledge and talent, which can be invested and used to improve performance as well as increase economic value (Al-Anazi and Saleh, 2009).

**(Draker)** on the other hand, believes that human potential is represented in the skills and experiences of employees, because these skills and experiences are considered to be outstanding knowledge that no one else has in other organizations (Al-Hilali, 2011).

**(Zhang)** stated that there are emphasis and development dynamics that enable organizations to progress and work to gain competitive advantage in markets operating in the light of all information resources and knowledge economies that characterize them. (Zhang ,2007).

**(Al-Rashidi )** is the most important asset that organizations have, and it is a set of different qualities and characteristics unique to the employees of the organizations, including skills, experiences and tacit and explicit knowledge with the ability to use everything no matter what. They use what they have and learn in connection with the generation of new knowledge and innovations that help organizations improve and work to solve their problems. (Al-Rashidi, 2017).

**(Chung)** is a hardworking group of people with rare and valuable skills, knowledge and abilities that contribute to the creation of the organization's economic and material wealth. (Chung & Lee, 2012).

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Finally, we can say that human potential is the skill and ability that distinguishes some individuals from others in organizations by making outstanding and creative contributions, adding real value to the organization by owning this intellectual property, which is seen as a forward-looking advantage organization. is to gain competitive advantage.

## 1-2- The importance of human potential:

The process of investing existing minds in economic organizations helps prepare smart organizations that seek to create a more advanced and professional work environment that relies on existing human potential and technology to create a high economic value system that provides competitive advantage to the company.

According to a group of researchers, we can say that the importance of human potential is: **(Rhati & Louaize, 2016 )**, **(Gashkash & Khaled, 2014)**, **(Miftah & Maryam, 2017)**.

- Increase efficiency in the use of company assets by providing greater service and efficiency.
- It is one of the most important sources of economic value and profitability for the organization to gain a competitive advantage.
- Investment in human potential benefits economic organizations through processes of growth, development, innovation and renewal in organizational processes and helps them generate fundamental changes.
- Increased attention to human potential in the organization will improve employee performance, create understanding among employees, and increase levels of trust between management and employees.
- The organization needs a constant focus on new ideas and concepts that can be translated into economic value and new products through employees who enjoy the ability to perform and create the new.
- Human potential is the most important capital of the company and is the way to find a profitable organization.

We must realize that the number of employees and years of service are not decisive characteristics to distinguish the work of the organization and its superiority over other competing organizations, but rather we must look for people with qualifications and competencies, and this explains the fact that organizations compete to attract rare human talents and the precision of the procedures to select and keep them.

## 2- Competitive advantage:

### 2-1- The concept of competitive advantage:

Many researchers have agreed to define competitive advantage as strategic objectives and define it as superior performance automatically derived from competitive advantage, and this competitive advantage is linked to the organization's ability to leverage its power resources to create a value superior to what its products offer from your competitors.

Competitive advantage according to **(Taleb)** is the strategic goals of the organization represented by low cost, better quality, high flexibility of economic operations and speed of delivery, thus creating a unique situation for the organization compared to competing organizations (Taleb and Ghali, 2011).

He **(Abbas)** defines it as the rare set of productive elements the organization has and the ability to manage its resources and capacity in such a way as to help develop its competitive advantages with high efficiency and competitive advantages for as long as possible. . . (Abbas, 2013).

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It is also known as "the organization's ability to achieve superiority and preference over its competitors in the market, and this superiority results from the development of the organization's outstanding capabilities, and these capabilities lead to the creation of competitive advantage". (Saleh and Rida 2009).

(Kotler) defines competitive advantage as "the ability of the organization to perform in a method or methods that are not within the capabilities of its current or future competitors". (Kotler, 1997).

(Pitts) defines competitive advantage as "the use of an organization's internal strengths to run its own activities and create value that other competitors cannot do while performing their activities". (Pitts and Lie, 1996).

Competitive advantage is the ability of the organization to run its business in a way that is difficult for its competitors to imitate and we can say that the organization must be successful as the purpose of competitive advantage is to gain a larger share of the market. create a unique value for the customer to achieve greater effectiveness. , thus obtaining a competitive advantage that drives the organization to increase its profits.

## 2-2- The importance of competitive advantage:

Competitive advantage is important for companies that consider it an essential competitive weapon to meet the challenges of the market and competing organizations, through the organization's development of its knowledge and competitive capabilities to meet the needs of customers in the future through the creation of technologies and production skills Continuously. After view the opinion of some researchers, the importance of competitive advantage can be summarized as follows: (Nuer, 2009), (Al-Mutairi, 2012), (Al-Abadi and Al-Otaibi, 2014 ). (Al-Saffar and Ma'an, 2015).

- Competitive advantage is a strategic goal for organizations.
- Competitive advantage derives its importance from cost reduction, obtaining high quality products and production flexibility.
- Competitiveness has the capacity to generate income and sustain growth in the face of foreign competition.
- The importance of competitiveness derives from trying to create the right environment to achieve economic efficiency through the allocation and use of resources to foster creativity and innovation.
- It is the true value of the organization as it cannot be imitated or copied by competitors.

In short, it can be said that competitive advantage protects the unique and continuous resources of the organization and this is due to the difficulty of understanding, applying and evaluating them in order to buy and acquire them by competitors.

## 3- Factors affecting productivity efficiency:

Efficiency is a synthetic process that occurs within the organization as a result of the systematic influence of a whole group of productive elements, most of which may be in management decisions at a technical, technological, process and professional level, in addition to the quality of production and work resources in organizations. At the same time, most authors use a more general concept of efficiency as "an integral and ordered characteristic of the activity of an economic organization, reflecting the success of the activities and the fulfillment of the mission, objectives of the organization". (Golovanov. 2013).

And since the concept of "productive efficiency" is a process that emerges only when it connects all the resources that are involved in the production process, productive efficiency has a broader meaning than

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just an indicator of quality for the product or the linking productive elements to each other, also goal of organization . (Ercak, 2016).

Thus, the study of the elements of productive efficiency , in fact, the study of the quality and effectiveness of the use of all the components of the productive chain including the organization of the productive processes.

Through Figure No. (1) classification of factors affecting production efficiency:

**Classification of factors affecting production efficiency Figure (1)**

productivity factors	definition
Technical	Technology, number of fixed assets and machines and equipment (financial capital ).
Human potential	Qualification of employees, attitude to work, motivation labor, the quality of managerial labor (human capital).
Organizational	The nature and level of innovation of business processes, the organization of production processes(Organizational capital).

Source: authors

Through the previous table, it is possible to identify the productive factors, which have been divided into:

- **Technical factors:** they include technology, fixed assets, machinery and equipment, that is, investments in cash, so it can be called (financial capital).
- **Human potential:** It is the concern for human resources, including salaries, wages, incentives, work environment and motivation... so it can be called (human capital).
- **Organizational factors:** They include the innovative processes and the organization of the productive processes and the programs that intervene in the productive process, for which it can be called (organizational capital).

To identify the most important productive factors, which were classified into (technology, human potential and organizational factors), we studied several Russian companies for the period (2013-2018).

Know the best factors to direct the investment of companies. by using the method of added value (VA) to know the value of income from factors of production, the following results were calculated according to the following formula: (Pulic, 2000).

$$FCE = \frac{VA}{\text{investment capital}} \quad (1)$$

$$HCE = \frac{VA}{\text{human capital}} \quad (2)$$

$$OCE = \frac{VA - \text{human capital}}{VA} \quad (3)$$

$$VA = \text{income} - \text{cost} \text{ ( NOT CONSIDERING LABOR COSTS )} \quad (4)$$

Where to:

FCE =the company's efficiency in creating value from financial capital

HCE = The company's efficiency in creating value from human capital

OCE = the company's efficiency in creating value from Organizational capital

VA = Value Added

The financial statements of the company "" AO «ТЭМ3» were used for the period 2014-2018. The initial values of the indicators for calculating VA are presented in the table 1 :

**Table 1 - Initial values the indicators for calculating VA " AO «ТЭМ3»", thousand rubles.**

Indicators	years				
	2014	2015	2016	2017	2018
1. Equity capital	380 672	397 312	421 981	430 900	425 627
2. long-term liabilities	384	204	16	0	92
3. Revenue from product sales	219 624	379 626	493 044	457 616	345 634
4. . production cost	203 041	315 968	398 041	356 664	305 245
5. . Labor costs	84 285	116 822	148 743	206 673	170 069
6. costs (4 –5)	118 756	199 146	249 298	149 991	135 176
7 invested capital (1 + 2)	381 056	397 516	421 997	430 900	425 719
8. Value Added (3 –6)	100 868	180 480	243 746	307 625	210 458

Source: Company's financial statements

The value of "costs" is defined as the difference between the cost of production and labor costs (human capital).

"Invested capital" is defined as the sum of long-term liabilities and Equity capital .

The added value is determined by the difference between income and costs (not including labor costs).

After performing the calculations according to the previous formula, the results appear in Table No. 2:

**Table 2 - The results of calculating the value added (VA) of the company "" AO "ТЭМ3" for the period 2014-2018.**

Indicators	years				
	2014	2015	2016	2017	2018
financial capital (FEE)	0,26	0,45	0,58	0,71	0,49
Human capital (HCE)	1,20	1,54	1,64	1,49	1,24
Organizational capital (OCE)	0,16	0,35	0,39	0,33	0,19

Source: authors

Using Formula No. 1 to calculate financial capital, it shows the amount of added value that is created for each monetary unit spent on equipment and machinery. In 2017 it reached the highest value of 0.71. This can be explained as follows:

By investing 1,000 rubles in equipment and machinery (financial capital), he has earned 710,000 rubles.

The value of human capital can be obtained by using formula 2 and shows , how much added value is created for each monetary unit spent on employees. It was the highest value in 2016, reaching 1.64. That is, made 1640,000 rubles.

Organizational capital is also calculated according to formula No. 3. In 2016, it reached the highest value of 0.39, which means 390,000 rubles. The rest of the index is calculated in a similar way for subsequent years.



Using the mathematical method in the previous company, the other companies were calculated, as shown in Table No. 3.

**Table 3 - The results of calculating the value added (VA) of a group of Russian companies “for the period 2014-2018.**

NO.	Indicators	years				
		2014	2015	2016	2017	2018
1	<b>ЭЛМЕТРО-ИНЖИНИРИНГ</b>					
	financial capital (FEE)	1,54	1,88	1,15	2,40	1,53
	Human capital (HCE)	2,44	2,69	2,26	5,75	4,71
	Organizational capital (OCE)	0,31	0,41	0,56	0,83	0,79
2	<b>АО «ТЭМЗ»</b>					
	financial capital (FEE)	0,26	0,45	0,58	0,71	0,49
	Human capital (HCE)	1,20	1,54	1,64	1,49	1,24
	Organizational capital (OCE)	0,16	0,35	0,39	0,33	0,19
3	<b>ЗАО «ДЕЛСОТ»</b>					
	financial capital (FEE)	1,11	1,13	1,29	1,26	1,56
	Human capital (HCE)	1,88	1,86	1,85	1,92	2,14
	Organizational capital (OCE)	0,47	0,46	0,46	0,48	0,53
4	<b>АО «ЗАВОД ДОРМАШ»</b>					
	financial capital (FEE)	1,05	0,67	1,43	1,03	1,06
	Human capital (HCE)	1,90	1,43	1,64	1,55	1,81
	Organizational capital (OCE)	0,47	0,30	0,12	0,36	0,45
5	<b>АО «АШАСВЕТОТЕХНИКА»</b>					
	financial capital (FEE)	2,13	2,13	1,89	2,17	1,76
	Human capital (HCE)	3,18	2,97	3,02	3,06	2,78
	Organizational capital (OCE)	0,69	0,66	0,67	0,67	0,64
6	<b>АО «КЕДР»</b>					
	financial capital (FEE)	1,91	1,84	2,63	2,08	1,54
	Human capital (HCE)	2,75	2,92	2,74	2,23	1,84
	Organizational capital (OCE)	0,43	0,48	0,42	0,52	0,46
7	<b>ЗАО «МЗРВ»</b>					
	financial capital (FEE)	0.519	0.64	0.64	0.76	0.64
	Human capital (HCE)	1.64	1.48	1.53	2.10	2.04
	Organizational capital (OCE)	0.39	0.32	0.34	0.52	0.50
8	<b>ОАО «МИАССЭЛЕКТРОАППАРАТ»</b>					
	financial capital (FEE)	1.55	2.66	2.87	2.25	2.91
	Human capital (HCE)	2.51	3.62	3.67	2.31	3.96
	Organizational capital (OCE)	0.33	0.38	0.38	0.24	-0.04

9	<b>ООО «ОЗХО»</b>					
	financial capital (FEE)	0.91	1.78	2.67	2.29	2.28
	Human capital (HCE)	1.54	1.84	1.41	2.93	2.50
	Organizational capital (OCE)	0.60	0.19	0.29	-0.06	0.33
10	<b>АО «ГРЦ МАКЕЕБА»</b>					
	financial capital (FEE)	0,08	0,08	0,18	0,08	0,04
	Human capital (HCE)	1,13	1,12	1,11	1,15	1,10
	Organizational capital (OCE)	0,12	0,11	0,10	0,13	0,09

Source: authors

Through the financial statements of companies, the investment of productive factors (Technical, human potential, organizational) makes it clear to us that, the highest factors of production and the one that has the greatest influence on the production process is the human potential represented in human capital. In this study, we reach the fact that investing in human potential is the best investment for companies, due to the high value obtained by investing in people, as shown in the data of the company to survive in the markets.

Then the preference in investment comes to financial capital and organizational capital, and finally, we can say that human potential are the main driving force for companies and the best factors of the productive process to gain competitive advantage.

## Conclusion

The conclusion can be summarized as follows:

### Results:

- 1- The company's competitive advantage is an essential element for its survival and continuity in the markets.
- 2- The factors of the production process can be divided into three groups (technical, human potential, organizational).
- 3- Through the study of companies, it was found that human potential are the best production factors which companies can invest.
- 4- When looking at the financial statements of companies, it becomes clear that the human factor is the best in investment, So, companies must pay attention to workers through motivation, training and a healthy work environment.

### Recommendations:

- 1- The companies' interest in the productive factors in general and the human factor in particular.
- 2- Developing human potential as a competitive advantage for companies.
- 3- Attempting to attract human factors with creative capabilities as they are the best factor to investment.
- 4- Monitoring foreign markets and trying to keep pace with market developments.



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