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HUMAN CAPITAL: A VITAL COMPONENT OF ORGANIZATIONAL SUCCESS

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ABSTRACT

Capital is considered as the vital component of producing the goods in a company because of which it is always considered as an instrument of production. Out of various kinds of capitals, human capital is treated as one of the most important as it involves the skills, capabilities and experience of the individuals which is considered as a most valuable asset for the organizations. This paper focus on the need of human capital to the business organizations and the steps that can be taken to enhance their skills. The paper also deals with the strategic importance of human capital and their interaction, as an asset, with other important assets of the organization because it is always taken in form of cost volume relationship.

KEYWORDS

human capital, organisational success.

INTRODUCTION

When you think of investments you may think of stocks, bonds, mutual funds, savings accounts, CD's, etc. There are some other ways that you can invest. You can invest in your life through various things whether it is volunteer or paid. That is called human capital and that is "the stock of knowledge and skill, embodied in an individual as a result of education, training, and experience that makes them more productive. This capital is always taken in form of cost value relationship and is the combination of all intangible resources possessed by the individuals or the groups within an organization. These resources include the knowledge of the individuals, their abilities, skills, intelligence, training and judgment. The cumulative total of all the above factors represents the wealth availability with the company.

Human capital is an acknowledgement that people in an organization and business are considered as an important asset who plays a big part in the development and growth of an organization. It can be said, that the importance of human capital is tantamount to other assets within an organization such as buildings, financial gains and machineries. It cannot be denied that people's skills, abilities and knowledge contribute highly and productively to the performance and success of an organization. Hence, organizations allocate huge sums of money and offers appropriate trainings to their employees, treating them as an investment to the organization in the long run. Inevitably, people in an organization are required and expected to maintain an organization's existence and growth. Traditional human capital theory (Becker, 1964, 45; Mincer, 1974,97) explains differences in the human capital of workers as a result of differences in their observed ability of level and type of formal education, experience and training. A variant of human capital theory is the human capital model in which ability and competence are not observable at the time a worker enters the labor market, but can be learned by employers from what is observed from the way the job is performed (Harrisand Holmstrom, 1982, 198). Therefore the concept of Human capital is changed over time mainly for two reasons:

• Employees acquire new abilities.
• The information about their ability improves and they can be better matched to job positions.

According to Becker 1964 "Human capital refers to knowledge, skills, and abilities acquired by an individual, traditionally through education and work experience. It is uniquely possessed by each individual and can be enhanced by continued education and job-related training"

According to Michael Parkin "Human capital refers to the skill and knowledge of human beings. Human capital is the attributes of a person that are productive in some economic context. Human capital is the stock of competencies, knowledge, social and personality attributes, including creativity, embodied in the ability to perform labor so as to produce economic value".

PROMINENCE OF HUMAN CAPITAL

In today's dynamic business world human capital is considered as one of the main resource owns by the companies because of which the companies started recognizing the contribution of human capital to their growth and success. The companies always aim at the development of this human capital by improving their personal and group management skills. Because of increase in competition and to survive in this dynamic business world, good companies always prefers to invest huge amount in human capital. For this purpose companies incurs the cost, the benefit of which can be reaped in future period of time.

Human beings possess qualities, skills, and talents that make them different from other human beings. Skills are considered as human capital because they make an individual unique. Human capital is imparted with different kind of skills. Some human beings possess scarce skills and some can have a high level of skills, such as a great education and knowledge at computer programming such as Bill gates. These people have a huge human capital because they possess skills no one else has, and these scarce skills give them the opportunity and the advantage to become rich. They get paid a lot of money because no one else can do what they do. People invest on human capital, such as education and training, but some human capital is not for anyone to invest on. Some human capital is like a gift, like a talent, and cannot be bought or paid for. The gift that Michael Jordan was born with was the physical and mental skills to be the best basketball player, and he never invested on them, he just worked on them to become better. If this type of traits are present in the human capital, it will be considered as a goodwill for the organization. By providing continuous training, employment security, performance appraisal and alternative compensation systems an organization can motivate its skilled employees to engage in effective discretionary decision making and to improve their behavior in response to a variety of environmental contingencies.

Modern approaches recognize that selection of Human Resources Capital (HRC) is a complex process that involves a significant amount of vagueness and subjectivity. Important assets as such machinery, building, stocks and shares are pretty straightforward to capital, their visible and substantial nature makes them relatively easy to define and in most cases there is an active market from where this capital can be easily derived. In contrast, intangible assets are not so easily defined and it is rare that they are actively traded. In general intangible assets are classified into four major categories:

1. Organizational human resources related,
2. Organizational human resources for marketing related,
3. Organizational human resources for technology based,
4. Organizational human resources for empowering.

ENHANCING HUMAN CAPITAL SKILLS

Because of today's dynamic and competitive business environment, a company should always focus on continuous enhancement and improvement of its human capital skills. Following are some of the important steps that the companies can follow for increasing the skills and abilities of their human capital:

- Efforts can be made on improving the quality of the individuals hired, or on raising the skills and abilities of current employees, or on both. Employees can be hired by following a sophisticated selection procedures designed to screen out all but the very best potential employees. One research indicates that selectivity in staffing is positively related to the performance of the firm.

- Organizations can improve the quality of current employees by providing them a complete set of training and development activities after selection. The more the organization understand people and their total working environment, the more their needs are likely to be met. A positive experience throughout the workers cycle should foster trust and develop loyalty, therefore allowing an organization to generate more revenue for less incremental expenditure. For example: If existing workforce is happy then they will be more willing to take up all the operations or services in the organization.
- Leaders must ponder the current and future needs of the organization, assess the workforce, and then determine how to develop and apply new skills and tools to maximize the benefit for themselves and their team members.
- Organizations can use the technique of rotational assignments. This is a structured work design that allows the business to deliver key projects while developing individuals through rotational assignments throughout the organization. Many companies provide leaders and high potential employees with the opportunity to work in various business units throughout the organization, with the goal being the development of a well-rounded leader who has a keen sense of the organizations operations and priorities.
- An ideal performance management process should be designed so that individual performance goals are tied to the goals of the business and the overall organization. This allows the employee to understand the significance of their work, and how their performance affects the results of the whole organization. Employees who understand their role in the accomplishment of business goals feel that their efforts matter, and they become more motivated and engaged. This also involves the concept of teaching managers who are responsible for effectively providing coaching to employees both formally and informally.
- Another approach is to establish Tours of Duty, a concept that can be applied in leadership development as well as for individual employees. Effective leaders must prioritize development of their staff, and be held accountable for engaging in the process and ensuring the desired growth in capability, performance and achievement of results. The focus should be on interacting with their employees in a meaningful and purposeful way, not just managing to tactical objectives.
- Feedback is also considered as a crucial factor in developing an employee performance. Not only does it provide a status report at any particular time, but it guides and informs performance, so that employees know how to use that feedback constructively. When employees have a better sense of how to do things well, they take ownership for their performance, and they request more feedback to guide them. The companies should aim at developing and identifying mechanisms through which employees can request this feedback.
- By following the philosophy of Management by Objectives (MBO) organizations can increase the skills and knowledge of their Human capital. MBO has replaced the traditional philosophy of “Management by Dominance” by emphasizing on the effective utilization of material and human resources of an organization. This can be done by integrating the individual with the organization and organization with the environment.
- E-training can be used for enhancing the skills of the human capital. E-training provides a complete, scalable and open infrastructure that allows the organizations to manage, deliver and track the employees training participation on line. Trainees interact with the trainers through E-training systems that deploy contents relating to use of mixed media and multiple learning modalities and provides a learning path to the trainees.

ORGANIZATIONAL PERFORMANCE AND HUMAN CAPITAL

Human Capital is important because it is linked to productivity. Productivity is the efficiency with which output is produced by a given set of inputs. Wheelan defines productivity as "the efficiency with which one can convert inputs into outputs”. In other words, it is how good one can make things. This means that if one is highly trained to do something, productivity will be high, and the benefits will be greater. Productivity is generally measured by the ratio of output to input. An increase in the ratio indicates that there is an increase in productivity also. Conversely, a decrease in the output/input ratio indicates a decline in the productivity. The human capital focuses on the two main components which is individuals and the organizations. This concept has further been described by Garavan et al., (2001) that human capitals have four key attributes as which are given as follows:

(1) Flexibility and adaptability
(2) Enhancement of individual competencies
(3) The development of organizational competencies and
(4) Individual employability.

It shows that these attributes in turn generate add values to individual and organizational outcomes. There are various findings that incorporate human capital with higher performance and sustainable competitive advantage (Noudhaug, 1998); higher organizational commitment (Iles et al., 1990); and enhanced organizational retention (Robertson et al., 1991).Hence, all this debates fundamentally focuses on individual and organizational performance.

From the individual level, Collis and Montgomery (1995) point out that the importance of human capital depends on the degree to which it contributes to the creation of a competitive advantage. From an economic point of view, transaction-costs indicate that firm gains a competitive advantage when they own firm-specific resources that cannot be copied by rivals. Thus, as the uniqueness of human capital increases, firm have incentives to invest resources into its management and the aim to reduce risks and capitalize on productive potentials. Hence, individuals need to enhance their competency skills in order to be competitive in their organizations. The human capital theory has undergone a rapid development. Within its development, greater attention has been paid to training related aspects. This is much related to the individual perspective. Human capital investment is any activity which improves the quality (productivity) of the worker. Therefore, training is an important component of human capital investment. This refers to the knowledge and training required and undergone by a person that increases his or her capabilities in performing activities of economic values. In any case, it is fitting to point out that the workforce’s lack of training is related to low competitiveness (Green, 1993). In turn, a greater human capital stock is associated with greater productivity and higher salaries (Mincer, 1997). Likewise, training is linked to the longevity of companies (Bates, 1990) and greater tendency to business and economic growth (Goetz and Hu, 1996). In addition, Doucouliagos (1997) has noted human capital as a source not only to motivate workers and boost up their commitment but also to create expenditure in R&D and eventually pave a way for the generation of new knowledge for the economy and society in general. Also, for small businesses it is a valuable asset, which is positively associated with business performance. Finally, investment in training is desirable form both a personal and social perspective.

From the organizational level, human capital plays an important role in the strategic planning on how to create competitive advantages. Following the work of Snell et al., (1999) it stated that a firm’s human capital has two dimensions which are value and uniqueness. Firm indicates that resources are valuable when they allow improving effectiveness, capitalizing on opportunities and neutralizing threats. In the context of effective management, value focuses on increasing profits in comparison with the associated costs. In this sense, firm’s human capital can add value if it contributes to lower costs, provide increased performances. Another study by Seleim, Ashour, and Bontis (2007) analysed on the relationship between human capital and organizational performance of software companies. They found that the human capital indicators had a positive association on organizational performances. These indicators such as training attended and team-work practices, tended to result in superstar performers where more productivity could be translated to organizational performances. This was also supported by Dooley (2000) who found a significant positive correlation between the quality of developers and volume of market shares. Based on the above arguments it can be concluded that human capital indicators enhanced the firm performance directly or indirectly. A study by Bontis and Fitzenz (2002) found that the consequences of human capital management and they established the relationship between human capital management and economic and business outcomes. In this study, a total of 25 firms in the financial services companies were selected. The study measured human capital effectiveness with four metrics; revenue factor, expense factor, income factor and HC ROI. The fundamental aspects of any organization are to generate more revenue and income per employee. Human capital has a direct impact on the intellectual capital assets that will yield higher financial results per employee. The development of human capital is positively influenced by the educational level of employees and their overall satisfaction. Therefore, development human capital has a direct impact on ROI of firms.

A causal model using a set of cross-sectional data developed by Selvarajan et al. (2007) indicates that human capital enhancement paves a way for greater innovativeness and this in turn offers positive implications on firm performance. In the meantime, firm performance and human capital could also be viewed in the context of high performance work systems (Hsu et al., 2007). It is argued that the formation and emphasis on the human capital enhancement will result in high performance or rather high performance work systems. Admittedly, human capital development and enhancement in organizations tend to create a significant contribution on organizational competencies and this in turn becomes a great boost for further enhancing innovativeness and the current literature to a large extent supports the fact that firm performance is positively impacted by the presence of human capital practices (Noe et al., 2003; Youndt et al., 2004). Some even endorsed that human capital development is a prerequisite to good financial performance (Delaney & Huselid, 1996) and in addition, the importance of organizational human capital with regard to firm performance was further supported by Hsu et al. (2007). In addition, evidence shows that the relevance of human capital to firm performance has also become prevalent among the technology-based new ventures, and it seems that the use of human capital tool (emphasizing quality of employees) per say in small technologybased new ventures tends to have a great impact on the firms' success (Shrader & Siegel, 2007). In the meantime, human capital enhancement can also be viewed in the context of top management team (TMT). Heterogeneity or sometimes is called diversity in TMT will tend to lead to greater performance because the argument is heterogeneity promotes various characteristics to be absorbed into the workforce team; this includes people of different age groups, functional backgrounds, education backgrounds, tenure and gender. These characteristics have a positive impact on firm performance as argued under the upper echelon theory (Hambrick & Mason, 1984). Studies reveal that heterogeneity cultivates greater knowledge, creativity and innovation among the team members (Watson et al., 1993; Maimunah & Lawrence, 2008). Heterogeneity is positively linked to better problem solving and offering creative solutions (Michel & Hambrick, 1992). Hence, diversity is positively related to performance. Even in the context of an organization, the implementation of certain management approaches or philosophies also deals with the infusion of human capital (e.g quality circles, team of employee's experts) especially when faced with problems (Kanji, 1997). Again (Kaplan & Norton, 1994) reveals that in the context of total quality management (TQM), firms can be assessed using financial and non-financial performance. The financial performance includes employee productivity, defect rates and market share and non-financial performance that include workflow improvement, innovation, customer satisfaction and skills developmentBesides this, diversity is able to attract and retain the best talent available; reduced costs due to lower turnover and fewer lawsuits, enhanced market understanding and marketing ability, better problem solving, greater organizational flexibility and better overall performance and improvement in decision making at strategic level (Bantel, 1993). Heterogeneity is positively linked to better problem solving and offering creating solutions (Michel & Hambrick, 1992). A recent study in the related area also provides some insightful information about the heterogeneity effect on firm performance (Maran, 2008). Undoubtedly, heterogeneity (in the form of human capital) can be a significantly important input to human capital development and enhancement as it makes organizations to be more creative and innovative for long term survival in their international and global markets (Grossman, 2000). In light of this, the competency of TMT is supported by the input-based international human capital, transformational human capital and output-based international human capital (Huang et al., 2002; Wu et al., 2002). However, some even argue that the relationship between innovative human resource practices (though human capital practices are not directly involved) and organizational performance could be described as 'non-linear' (Becker & Barry, 1996; Chadwick, 2007)

HUMAN CAPITAL MANAGEMENT

Human capital is typically managed by an organization's human capital management (HCM) department, known as human resources department. A HCM department of an organization's aims at the acquisition, management and optimization of the human resources. For nuruting the skills of the employees the same department can also organise different types of activities like planning and strategy making, recruitment, employee training and development, and reporting and analytics. Under HCM employees are treated more like investors of their own capital. Organizations don't own capital but can rent it from the employees. Because of this human capital is highly delicate to handle and is in constant danger of being lost when an employee quits the organization. Following are the main areas to be focussed under HCM:

- Focusing on knowledge and insight rather than on standards.
- Acknowledging complexity and not trying to understand everything through cause and effect.
- Using best fit, not just basic or best practices.
- Focusing on creating value through intangible capability.
- Integrating people and business strategy, driving and accelerating the business plan.
- Reporting to employees, managers and the board.
- Focusing on long term stretch objectives, and learning from their outcomes.
- Managing a large proportion of the people management agenda through strategic programmes.

HCM is more suitable where

- The organization is a people oriented business
- The organization is relatively large
- The environment is not simple and stable
- Managers takes responsibility for people management
- The culture is relatively sophisticated
- The organization uses technology effectively.
- The organization is focused on growth through differentiation rather than cost leadership.
- Planning is bottom up as well as top down
- Organization is managed strategically, with a clear high level business strategy, ideally through the use of a strategy map and scoreboard and effective leadership.

Human capital management process

Human capital management process includes a six-step procedure (Lyer,2004) consisting of Planning, employee selection, embedding, providing service, maintaining, pension. Each of human capital management sub-processes has outcomes and impacts on the organization and individuals.

- **Planning**

Product of planning is strategic sourcing. This output, internal and external employees seeking of talented individuals is based on roles and responsibilities. So it is the part of the organizational strategy that has supporting to adequate budget allocation for internal and external employees seeking of talented people with him.

- **Employees seeking**

The output of employees seeking is talent Staff. This output is not focused upon just one job, but it focuses on the talents life cycle and the life value of an individual.

- **The placements**

With embedding the talents, the organization accesses the nature based on role. The role-based organization provides the roles that implemented for a strategic and integrated plan in the organization and it is conducted through the contextualized intelligence.

- **Service delivery**

The output of this stage is employee satisfaction. This output trains the staff that they live in customer orientation culture and they ensure that this culture penetrate in internal and external customers.

- **Maintaining**

Reward, recognition and appreciations are the result of this step. This output creates motivation and courage of ownership and entrepreneurship in people and creates accountability between them and the organization for strategic outcomes.

- **Retirement**

At the end of human capital management cycle, there is a sense of loyalty in employees and customers. Pensioners as the individuals who have grow in organization are the ambassadors of the trademark in organization and they feel a strong sense of loyalty to their organization and they consider themselves accountable and responsible to institutionalizing of the success inside and outside the organization.

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