



## A Review of the Role of Human Capital in the Organization

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### Abstract

*At present human capital concept gaining more attention in the organizations. Human capital refers to a core element in improving the organizational assets. Whereas human capital is able to enhance the efficiency of the employees and it is sustainable competitive advantage. Many organizational thinkers implement the principle of human capital theory for improving the ability to build effective competition among companies by use of growing individual HR. As a result in today's studies, after studying many research papers, human capital role and its importance in the organization have been studied. This paper explains the characteristics and important features for human capital and what is the role of human capital in the organization. The result point out that the common index, which is essential at all levels of the organizations that is skills of humans. Higher skills should be maintained by the key employees of the organization to achieving the competitive advantage. The key employees of the organization must have adequate skills, knowledge, innovation, information and creativity for attaining the customer satisfaction as well as competitive edge. Strategic HRM and human capital is becomes more essential for the survival of the any organization.*

**Keywords:** *Human capital, knowledge, skills, organization asset, competitive edge, economic development*

### Introduction

Human Capital is playing the important role in organization and its performance. At present human capital is gaining attention of every organization members. The role of human capital is very crucial for every organization. because it helps to build and improve the skills and knowledge of the employees of the organization. through which an organization can further reach its target and attain the competitive advantage in long- run (Tech Funnel 2020).

In this technological and world of innovation business model we need a force that is expert and knowledge. Which is commonly derived from education and experience from work considers both on the job and off the job training (Helfat 2015). It might be thought that managerial human capital considers the stock of expertise , knowledge through which an superiors can draw attention and can sense the opportunities and threats present in the environment. Adapted by the HR professionals to achieve the goals of the organization.

In previous years the organization management has been constitute that HR have highest importance in attaining the sustainable competitive edge over the competitors and achieve greatest efficiency. In this world of innovation there is increasing need for developing a knowledge, skills and communication with customers. Human capital which considers the extent of knowledge, creativity, technical skills and expertise with the organization, achieve great prominence therefore in today's era



workforce of the organization considered as an investment and productive asset of the organization not cost of the organization (Hendrick 2003).

In 1990 McKinsey published a book with title name “ The War of Talent” and it indicated that top executives of the organizations growing importance on the need of the organization to develop, attract and retain the talent effectively. According to the above discussion it can be said that Human Capital is gaining more importance than the tangible assets of the organization. This paper will explain the understanding of Human Capital , its characteristics and importance in the organization. and this paper also mention the indices of measuring of human capital.

## **Human capital**

Employees of any organization is the core element for survival in this competitive environment. Human capital is significant because it is considered as to enhance the productivity and profitability of the organization. firstly the word human capital was defined by the A.W. Lewis in the article titled with “ economic development with unlimited supplies of labour” in 1954. Here he defined the dual sector model. Gary Becker explains the concept of human capital in the economic literature (1996). Human capital is neither financial capital nor it is physical capital. Human capital is stock of skills, knowledge, health and creativity of the individual (Becker 2002).

Becker considered that physical capital, human capital and financial capital all are different prospect of capital. Therefore its main prospect that is different from each other is that tangible and intangible. Where an individual can be separated from its tangible assets like properties, other tangible things but in human capital an individual can not be separated from its health, knowledge, skills and its value. Whereas human capital is the most important capital for any organization and it is sustainable capital.

Schultz defined the human capital in 1961, that formal education and training are the most crucial element for enhancing the production and productivity. Furthermore, he examines the human capital investment is the criteria for registration in education. Consequently are different definitions of human capital where each of them emphasis different properties of human capital.

Human capital considered as the education, knowledge, psychometric evolutions and work-competence (Denizci, 2006). In the previous decades the share of human capital in GDP of the country has been increases and physical capital share decreases. The share of GDP in the human capital creates the knowledge economy concept. For producing goods and services there are different types of capital considered as input. Whereas human capital considered as complicated role for producing goods and services. Human capital represents the intrinsic talent, which can be modify or change according to the situation. These characteristics causes the sustained dynamism of economy (Menzis,2003).

Human capital is classified as a stock of creativity, innovation, knowledge and energy that an individual can invest in their work (Weatherly,2003). Human capital is an investment in HR resources and professionals to enhance their efficiency. Therefore this investment is considered as future purpose. Because it creates the value for the organization with many different aspects and qualities of individual ( Burund and Tumolo 2004).

## **Importance of Human Capital as economic and social prospective**

Human capital is the main source of the economic growth of the country. Because it helpful in enhancing productivity and advancement of technological in the country. Human capital makes an organization with creative and innovative workforcethat leads to growth of the country. Rate of



progress of human capital is the main source difference between the developed and developing countries. Underdeveloped countries need to be establish innovative human capital and expand their government services to introduce new system and build new techniques for agriculture and infrastructure and to develop the education system (Saif, 2018).

Social capital of the country is also more important for the growth of the country because it promotes the social well being and immediately effects the efficiency of goods and services. Such as higher level of administrating in the society minimise the cost of commercial transactions(Rastogi,2002). There is a significant relation between social capital and human capital. The study is explain the relation in the form of knowledge acquisition, where social capital assists professionals abilities to acquire knowledge from the clients of the organization. and also maximise the amount of overall knowledge acquired. Creates healthy relation between organization and its clients (Yuliani Suseno, 2017).

A bunch of knowledge and human capital has immediately effect on the efficiency. Training level of workers straight forward effects the performance of the workers and productivity of the organization. most of the social advantage come from the knowledge accumulation. Economic growth of the country will effected by the urban employment, crime minimisation and enhancement of social correlation in long run (Carmeli and Schaubroeck,2005).

## **Characteristics of Human Capital**

### **Innovation and creativity**

Renovation and rebuilding power is the major source of any organization to survive in this competitive era. This rebuilding is attains via adopting the goals at current situations and methods of attaining these goals should be improved and according to the current market demand. For this reason every organization should have creative and innovative workforce to deal with the challenges and adapt changes as soon as possible. It will be difficult to survive for non- creative organization.(Daft, 1998)

There is significant relationship among innovation, upgrading human capital and organizational capital and productivity of labour. Heckman selection model is used to investigate the relation among investment in R&D and skills effects probability of innovating.the study found that all variables are significantly related with productivity of the organization.in mainly measuring the factors it is found that cognitive and ICT skills, and highly skilled workforce playing vital role in increasing the productivity. ICT skills directly related to the productivity and innovation (Emile cammeraat,2021).

### **Knowledge and skills**

Actually humans are the valuable resource of the organization. the famous economist(William Petty) in 17<sup>th</sup> century measures the value of the employees by insurance offers (Erikson 2001). But late century it was described by the Adam Smith, he compos the workers value ‘skills and knowledge and its impact on the efficiency and product process of the company (Smith 1910). Whereas he also defines training is type of an investment which assists the trained and experienced employees. Empowerment and providing opportunities to employees of the organization enables them to take decisions and reduces the employee turnover and leads to retaining the talent (Thomas et. al. 1996).

Knowledge management considered as an effective field which can be builds by several factors like organizational development, HR, management change, management credit measuring performance, IT



and placing value (William Bukowitz 1999). Knowledge management possesses commercial knowledge and utilise it in order to inspire innovation (Rein Moeller and Nonaka 2000).

There is positive and significant relationship between knowledge based economy and economic growth. the author is concern with finding the variables that relates with the transformation of knowledge based economy with respect to economic growth. researcher used a growth model in Barro and Sala-i-Martin framework (1995).the result of the study shows that there are 4 variables human capital and research, institutions, business sophistication, infrastructure, are the main elements of knowledge based economy that impact on positive growth of the economy (Maryam Fattahi, Sajjad Barkhordari 2019). The author explains that knowledge and its management is vital for economic growth. Intellectual capital and knowledge management is important for building economic growth and product development. That's why more emphasis is needed for the knowledge management such as receiving, measuring and describing the knowledge for the economy (Bontis 1998).

### **Value added**

Human capital is helpful in creating value and attaining the competitive advantage and operate overall quality plans in the organization. workers of the organization can create prediction at all levels of the organization. establish values, determines goals and mission, strategic plans designing and formulate these plans according to the values. Value can be enhanced by providing training and motivating the workers of the organization (Armstrong 2008). Human capital value added (HCVA) can be described as an average profit per employee of the organization or it can be said that how much an average employees can contribute to the bottom line. The result of the HCVA shows that higher the employee profitability or value is good for an organization.

### **Competitive advantage**

Every organization should differentiate its products and services from other competitors in the market. It can be possible with the talented and experienced workforce in the organization. core and talented worker make an organization unique and able to provide better services to its clients as per the market standards. Employee talent can be classified such their creative. Innovative, flexibility, better performance, and expertise in providing direct services to its clients play a important role in creating competitive edge for the organization (Armstrong 2008). Moreover intellectual capital considers as an intangible assets of the organization that is valuable drivers in creating competitive advantage. it has immediate impact on the available competition in the market (Groves 2002).

### **Customer satisfaction increment**

Customer satisfaction and human capital has positive relation . impacts company performance by the information available in the market. Coverage by media and information provided by the survey circulated in the market rate the organization. this promotes the company attractiveness and attract qualified and talented candidates towards the organization (Young 2006). Investment in human capital is significantly related with customer satisfaction. Investment in HC is consumption of highly skilled and expertise workforce and their performance level is also high and it also leads to customer satisfaction. Performance of the employees considers as a mediator factor in this research. Investment in human capital considers the most valuable asset for the organization. because it eventually interact and attract with the customers directly and indirectly this interaction finds either customer is satisfied or not (Faisal Mehmood 2013).



Evaluation of the services by the customer mainly depends on the attitude, capability, skills and expertise of the employees. Whereas behaviour of the workers directly relates to customer and it will decide the future company's services and customer relationship (Grazo and Gonzalez,2006).

**Indices of Measuring Human capital**

when employees of the organization is considered as asset for the organization thus it becomes important to quantify the value of these asset. Given the fact it becomes important for taking decisions about management and higher the ROI on investment. There are many indices are identified for evaluating the features and dimensions of the human capital ( Guest, 1997). It includes the indices of efficiency or goods and services, numbers of errors, customer services, customer satisfaction, goods and services quality, indices of financial is financial performance and selling.

Moreover a research done by Stiles and kulvisaechana(2003) related to the Human capital indices and their evaluation are presented in given table (1)

**Human capital indices and its evaluation**

<b>Human capital activities</b>	<b>Possible evaluation</b>
<ul style="list-style-type: none"><li>• Hiring new candidates</li></ul>	<ul style="list-style-type: none"><li>• time, cost, quantity, compatibility with strategic criteria, quality.</li></ul>
<ul style="list-style-type: none"><li>• competence and training</li></ul>	<ul style="list-style-type: none"><li>• measuring skills, competence finding difference between investment in training and competence.</li></ul>
<ul style="list-style-type: none"><li>• rotation and dismissal</li></ul>	<ul style="list-style-type: none"><li>• the causes for leaving job</li></ul>
<ul style="list-style-type: none"><li>• Utilization criteria</li></ul>	<ul style="list-style-type: none"><li>• operating expenses, per capitaincome, real value added</li></ul>
<ul style="list-style-type: none"><li>• Diagram of human force</li></ul>	<ul style="list-style-type: none"><li>• Knowledge, diversity, management activities cooperation, age and promotion rate</li></ul>
<ul style="list-style-type: none"><li>• Reward and compensating the services</li></ul>	<ul style="list-style-type: none"><li>• Evaluating justice, variety, customer satisfaction, level of payment as per market standard, employee satisfaction</li></ul>

**Conclusion**

According to the above discussion and research done by many researchers it can be said that human capital is the advance version of human resource. Demand of human capital and its management is growing rapidly in the organization. In short human capital plays vital role in economic development, improving skills and life of the individual and their income, enhancing the knowledge, product capacity, reducing poverty and maximise the economic growth of the country as well as improves the performance of the organization and increase its productivity. Given that in the world there are newly introduced revolution fighting against capitalism here human factor plays important role than any other factors. The future prediction about human capital will be finding out the factor that leads to maximum efficiency and revenue for the organization and measuring the gap within human capital of the organization.

When employees of the organization implement human capital to their job they get their investment return in the form of job satisfaction, increased value, improved performance, salary benefits, learning



opportunities and promotion. These opportunities permits government and families to invest higher amount of their resource in education and by providing training facilities to human force. It is worth paying attention that economic attitude against human capital is important for economic growth and increasing the efficiency of the country. Investment in human capital (training human force and education) becomes important for attaining competitive advantage at global level. Government of India is continuously taking step forward to invest in human capital and improving country human capital.

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