



HUMAN CAPITAL

Chapter 16





HUMAN CAPITAL AS A CONCEPT

- Adam Smith referred to human capital as the acquired and useful abilities of all inhabitants or members of the society.
- Acquisition of talents, their maintenance during their education, study or apprenticeship costs a real expense.
- Talents become a part of their fortune likewise become a part of society to which they belong.



Mincer and Gary Becker Definition of Human Capital

- Human capital is similar to “physical means of production,” such as factories and machines.
- One can invest in human capital (via education, training, medical treatment) and one’s outputs depend partly on the *rate of return* on the human capital one owns.
- Thus, human capital is a *means of production* into which additional investment yields additional output.





HUMAN CAPITAL DEFINITIONS

- Human Capital refers to the stock of skills and knowledge embodied in the ability to perform labor so as to produce economic value.
- It is the health, strength, education, training, and skills that people bring to their jobs.
- It is the stock of knowledge and skill, embodied in an individual as a result of education, training, and experience that makes him or her more productive.



HUMAN CAPITAL CONCEPT AS IT IMPACTS WORKERS TODAY

- The advent of the information age and knowledge economy makes human capital ownership and control more compelling
 - Workers today as human capital investors bring their mental powers to their jobs in the organizations.
 - Knowledge workers are growing in numbers.
- As investors of their personal resources and talents, they demand a better return of their investments.



COMPONENTS OF HUMAN CAPITAL

**ABILITY + BEHAVIOR × EFFORT × TIME
= HUMAN CAPITAL INVESTMENT**





Ability

- The proficiency in a set of activities or forms of work.
- It comprises three subcomponents:
 - *Knowledge* – command of a body of facts required to do a job.
 - *Skills* – facility with the means and methods of accomplishing a particular task.
 - *Talent* – inborn faculty for performing a specific task.



Behavior

- Observable ways of acting that contribute to the accomplishment of a task.

Effort

- Conscious application of mental and physical resources toward a particular end.

Time

- Refers to the chronological element of human capital investment: hours per day, years in a career, or any unit in between.





Return on Investment (ROI)

Career growth

- Opportunity to acquire more competencies through training and development
- Opportunity to promotion

Recognition

- Promotion is one form of recognition
- Other myriad ways of recognition for a job well done
- Recognition enhances motivation; motivation guarantee's higher performance

Happiness in the job

- Feeling of self-satisfaction or self-actualization that the job provides

Pay and benefits

- Still the greatest single motivating factor for human capital investment



FINDING THE PROPER INVESTOR

- How to find the right investor with the necessary attributes of ability, behavior, effort and willingness
- The answer is in the hiring process
- Attracting people with critical human capital is a condition *sine quanon* for strategic success in the organization
- Individual competencies are defined as the applied skills, knowledge, behaviors and personal attributes of the organization's workers that are critical to its success.



RETAINING THE PROPER INVESTOR

- To attract proper investors could be easy the hardest part is to retain and motivate them.
- Two elements necessary for retention and motivation:
 - Commitment to the organization
 - Engagement in the job

