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A Review of the Role of Human Capital in the Organization

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Abstract

Today, the concepts of human capital and strategic management of human resources are very common in the organizations in terms of philosophy and technique. The term of “human capital” is considered as a key element in improving the assets of an organization, since it is a sustainable competitive advantage and increases the employees’ efficiency. Some organizational theorists apply the rules of human capital theory to prove the ability to create useful competitions between companies by means of developing individual human resources. Therefore, in the present research, after studying more than 100 papers, the role of human capital in the organization and the characteristics of human capital have been studied. The results indicate that the common index, which is important at all levels of management in the organization, is human skill. Those who work in the central core of the organization must develop higher skills. These people must have enough knowledge, information, innovation, and creativity to increase the customer’s satisfaction and create competitive advantage for the organization.

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1. Introduction

In the recent decade, the management of organizations has found that human resources have the greatest importance in gaining sustainable competitive advantage and efficiency. In the world where knowledge and communication with customers have gained increasing importance, human capital, which shows the volume of knowledge, technical skills, creativity, and experience of the organization, gains great importance, thus labour force is considered as productive assets not costly assets (Hendricks, 2002).

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Perhaps researching, assessing and controlling human resources are more difficult than other resources of the organization, since the rarest and most complicated resources in knowledge-based economy are human resources. Most managers concentrate their strategies on tangible and obvious factors of the organization such as technology and using physical and financial resources. Due to today's characteristics of global economy, the emergence of phenomena such as globalization and increasing growth of technology, and using modern technologies in producing new and various products, this fact cannot create competitive advantage for the organizations by itself (Garavan, Morley, Gunnigle & Collins, 2001). Therefore, organizations must concentrate on other factors such as human and intellectual capitals in order to gain competitive advantage and improve their survival (Nordhaug, 1993). McKinsey published a book under the title of "The war for talent" in 1990 and stated that top managers of organizations have increasing emphasis on the needs of their organizations to effectively attract, develop, and preserve talents. According to the above sentences, today, human capital has gained importance more than any other tangible resources for the organization. In this paper, it has been attempted to explain the concept of human capital, its importance, and the characteristics of human capital and mention the measuring indices of human capital.

2. Human Capital

Human capital, in simple terms, is anything but physical capital such as properties, equipment and financial capital. In the previous century, the share of physical capital in gross domestic product in the economy of advanced countries has sharply fallen, while the share of human capital has risen. This rise in the share of human capital in gross domestic product has created the concept of knowledge economy. Different types of capital have been considered as inputs, which enter the process of producing goods and services, however, human capital is not considered as a simple input, since it plays a more complicated role in the process of producing goods or providing services. Human capital displays an intrinsic talent, which can both change or moderate itself and other inputs. This characteristic leads to the perpetual dynamism of economy (Menzies, 2003). Human capital refers to knowledge, education, work competence, and psychometric evaluations (Namasivayam & Denizci, 2006).

The concept of human capital is rooted in the economic literature (Becker, 1996). Human capital is neither physical capital nor financial capital. In fact, this capital has been defined as the knowledge, skill, creativity, and health of the individual (Becker, 2002).

Becker believes that human capital, physical capital, and financial capital are different aspects of capital, however, their difference is derived from the fact that an individual cannot be separated from their skill, health, and values, while they can be separated from their assets and properties. Therefore, the most sustainable and biodegradable capital is human capital. According to Schultz (1961), formal education and training are vital tools for improving the capacities of production. Moreover, he considers the investment in human capital as the criteria for educational registration. There are various definitions of human capital, which each of them emphasize different characteristics of human capital.

In a new definition of human capital, it is considered as a collection of features, life trade, knowledge, creativity, innovation, and energy, which people invest it in their work (Weatherly, 2003).

Human capital is the investment in human resources in order to increase their efficiency. In fact, the costs of this investment are provided for future use. Therefore, the learning organization chooses the investment in individuals, because people are valuable human capital with different qualities (Burund & Tumolo, 2004).

Generally, organizational capital is a cohesive collection of qualitative features, including educational, skilled, and cultural, which creates value added for the organization (Namasivayam & Denizci, 2006).

3. The Economic and Social Importance of Human Capital

The accumulation of knowledge and human capital has a direct effect on efficiency. In advanced countries, which the growth of gross domestic product has been raised, employees training level has directly increased their working life. Most social benefits, derived from the accumulation of human capital, such as good health, more urban employment, reduction of crime, and increase in social correlation will affect the economic growth in the long term (Carmeli & Schaubroeck, 2005).

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