



# HUMAN CAPITAL CREATION: AN IMPERATIVE OF OUR TIMES

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## ABSTRACT

India has a rapidly growing population of over 1.27 Billion. As 65% Indians are under the age of 35 years, we can say that it is a young population. While this youthful population is a great advantage to India, its value can only be realized if the population is converted into Human Capital. Thus Human Capital creation is of great significance to India. It is important to understand what really human capital is and what can be done to increase it. This paper explores the concept of human capital taking a holistic economic view of how human beings function in the economy. Human capital maybe of three types: knowledge capital, social capital and emotional capital. Human capital is an intangible asset stemming from an individual's talent and experience. It isn't a tangible asset you can quantify on a balance sheet and yet it adds economic value to a company. In fact, a company is what it is because of its employees. Individuals who make up a company's workforce are responsible for its success or failure. If an organization employs people who have more education, more developed skills, and more work experience, it will be able to accomplish much more, but if it can help its existing employees to exhibit their highest potential by uncovering their talent, honing their skills and nurturing their positivity, the company will have hit a goldmine! A company often makes the mistake of assuming that the way it can increase human capital is to hire more people but actually it is equally if not more important to focus on the existing workforce. This paper explores the strategies that a company can use to increase the human capital and create, preserve and enhance it's Human Capital.

**KEY WORDS:** Human Capital, knowledge capital, social capital, and emotional capital, Human capital Management, Strategies to increase Human capital

## INTRODUCTION

Human capital includes the competencies, knowledge, social and personality attributes, which mark the ability of employees to engage in work that generates economic value. The concept of human capital takes a holistic economic view of how human beings function in the economy. An understanding of this is important to assess the social, biological, cultural and psychological implications of human beings as a crucial part of economic transactions.

With a rapidly growing population of over 1.27 Billion, India also has a young population. As 65% Indians are under the age of 35 years, Human Capital Creation is of great significance to India. The rapid growth of Indian economy has been fueled by the growth of Human Capital in India. Human capital has steadily increased in India since Independence because of the qualitative improvement in each generation. Today, it is the third generation of India's population that constitutes the workforce of India and has developed the service sector of India which in turn has led to a more modern and professional corporate India.

Economic theories focused on the secondary sector of the economy and human resource was seen as a fungible resource: homogeneous, and easily interchangeable, and was referred to simply as workforce or labour. The factors of production were said to be land, capital, labour and the entrepreneur. It is only recently that human factors of production are being viewed as human capital. In fact now-a-days, the term "balanced growth" refers to the goal of equal growth of both aggregate human capabilities and physical assets that produce goods and services.

The intangible components of Human capital are:-



1) Social capital- This includes the social bonds and relationships, goodwill, social cohesion, social resilience and related concepts like celebrity or fame.

2) Talent- the inherent qualities in an employee that cannot be passed on to others regardless of effort.

3) Instructional skills- Skills and qualities in employees that can be transferred or taught through training and practice.

4) Intellectual capital- This refers to good knowledge management habits or well-designed and executed systems of doing work.

It does not matter which definition of human capital one uses or which elements are included in the concept, human capital is the key to the success of any economy, country or organization. Human capital can be created and polished through education, experience, skill development, training and motivation. Therefore it is important that every company must create a focused strategy to enhance it.

### **What is human capital?**

Human capital is an intangible asset stemming from an individual's talent and experience. While it isn't an official asset you can quantify on a balance sheet it certainly is an economic value for a company. This primarily because human capital empowers a company to service its clients, create its products, and innovate for new offers.

Human capital can be made up of several factors, including:

- Hard skills and soft skills
- Higher education and training
- Intelligence and emotional intelligence
- Personality
- Work experience
- Employee well-being
- Loyalty to the company

With better human capital management, companies, countries and economies can increase productivity and profitability.

### **Importance of Human capital**

A company has many assets. Some of them are easier to quantify than others. For instance, you can easily use a balance sheet to determine the economic assets. There's a simple number to show how much is there. What these balance sheets don't tell you is the worth of the employees. It's difficult to put a number on intangible values like leadership, education, creativity, and past work experience. But these have supreme value for any company. These assets allow employees to perform and thrive. That is why an organization must be aware of this value and work towards preserving and growing it. These assets are called human capital.

### **What Human Capital means for a company?**

Every company is what it is because of its employees. Individuals who make up a company's workforce are responsible for its success or failure. If an organization employs people who have more education, more developed skills, and more work experience, it'll be able to accomplish much more. A higher human capital means employees are more capable of doing their job. But it also means they can innovate and find creative ways to solve a crisis. Overall employees will be able to do their job more efficiently if they have higher human capital.

### **How Companies can lose Human Capital**

Human capital can migrate from one place to another, so Companies that don't prioritize retain strategies for human capital can experience a brain drain. A Brain drain essentially describes the phenomenon that occurs when human capital migrates from developing areas to urban and developed areas. The same can happen to companies if they don't value their employees.

- 1) The most common reasons employees leave their job to seek more compensation.
- 2) You can also lose human capital if you don't give career advancement opportunities.
- 3) Lack of appreciation of efforts
- 4) Toxic work place
- 5) Role ambiguity



- 6) Unpleasant work environment
- 7) Lack of autonomy

### The Types of Human Capital

Another way of categorizing human capital is to classify various factors under three types: **knowledge capital, social capital, and emotional capital**. Let's look at what each of these includes:

#### Knowledge capital

- School education
- College degree
- Hard/Technical education & skills
- Work experience
- Knowledge of situation
- I.Q. levels

#### Social capital

- Relationships with superiors, subordinates and peers
- Social status
- Professional network
- Being well known or famous
- Health

#### Emotional capital

- Emotional intelligence
- Out of the box thinking & Creativity
- Problem-solving ability
- Personal resilience
- Critical & Analytical thinking
- Loyalty & Integrity
- Leadership behavior
- Other soft skills

### What is Human Capital Management?

Human capital management refers to the function of managing people and includes a set of practices in areas like workforce acquisition, management, optimization and retention. In modern organizations it becomes very important given that the companies most critical asset is its people.

The costs directly related to an employee base like compensation and benefits are the single largest budget item for most companies. Clearly, HR has shifted to a more strategic and integrated role in fulfilling the organization's overall strategy and goals.

### Why is human capital management important?

If a company's management fails to understand the needs of employees and how they impact the business, the company will struggle to grow. It is the people that make a company great; It is therefore critical for a company to manage human capital and ensure that its workers are happy and satisfied, and thus, productive and prepared to tackle any challenges they confront.

### Key functions of a human capital management system

In order to improve the existing system it is important for managers to understand the key functions of managing human capital. The key functions of managing human capital include:

- **Hiring/termination:** It is important that those in charge of managing human capital should be involved in the process of hiring and firing, as well as on-boarding. This is critical to an understanding and management of the flow of people in and out of an organization based on the needs of the business.



- **Training & Development:** Human Capital Management requires helping employees to focus and make sure everyone in the organization is prepared for the task at hand by training and development programs for both existing and new employees.
- **Employee retention:** Hiring good employees is a difficult task but retaining them is a greater challenge. Managing human capital includes nurturing talent, retaining top performers and investing in the next generation.
- **Motivations & Morale:** Assessing the needs, aspirations, motivations and feelings of employees and then communicating them to business leaders is another aspect of managing human capital.

### How to increase human capital?

A company often makes the mistake of assuming that the way it can increase human capital is to hire more people but actually it is equally if not more important to focus on the existing workforce. Let us discuss some ways in which a company can increase the human capital:

#### 1. Provide opportunity for further education to your workforce

A well educated workforce can achieve far more. Companies must provide training related to their industry. They can sponsor employees to get higher college degrees or additional certifications. A company can also offer opportunities for learning and professional development within the organizations like giving more decision-making authority, enabling people to pursue their own initiatives, or identifying mentors for employees to prepare them to take on more advanced roles in the organization. There is always scope for learning so a company that invests in its employees' continued learning will keep growing its human capital without changing anything else. This will lead to more employee productivity and employee retention.

#### 2. Provide a work culture that encourages innovation and creativity

Out of the box, creative thinking leads to innovation and better employee engagement. Employees are able to solve problems in new ways.

#### 3. Encourage specialized skill development

Companies must be structured in a way that encourages specialized skill development. Greater specialization helps employees to focus on their area and excel. A great addition is that while employees are specialists they are also encouraged to rotate through multiple specialties and gain a holistic view.

#### 4. Hire a diverse workforce

When diverse employees who possess different life experiences bring different competencies and perspectives to the table, it results in better decision making and better financial performance. It is therefore very important to bring diversity, equity, and inclusion to the organization.

#### 5. Provide ongoing coaching

Education must go beyond traditional training or formal education. Employees must be coached and mentored to:

- Identify their strengths and weakness
- Develop leadership skills
- Enhance employee performance

This will help employees to reach their full potential and thus maximize human capital.

#### 6. Prioritize human capital in your organization

The true value of a company stems from its workforce. It is therefore important to invest in people to increase human capital. It may temporarily seem like an expense but this investment will allow employees to efficiently produce more revenue and profit for the company in the long term. If people feel valued and prioritized they will step up their efforts.

#### 7. Think beyond recruiting and on-boarding.

Employee engagement must look beyond recruiting and on boarding to assessing the employee life cycle. Management must ensure that employee recognition, review and learning processes engage workers, and the off boarding process matches the on boarding process. Sometimes role and goal clarity is what is required to uncover hidden talent, skills and abilities

#### 8. Establish connect with each employee.

It is important to take a personalized approach to the day-to-day management of employees. The employees' personalities and preferences should be taken into account when managing and communicating with them. Some



employees may need more frequent check-ins and a more personal relationship than other workers. The bond or connection created with an employee encourages him or her to work hard and stay invested in the organization.

#### **9. Invest in technology for mundane tasks to free up managers for personal interactions.**

In order to take Human Capital Management a step further, it's useful to implement the right tech tools for your company, and invest in building automated processes by utilizing technology so that human resource managers get time to interact with and get to know the people.

#### **10. Keep communication positive and transparent.**

Management must keep channels of communication open and communicate not only key issues, but also the day to day issues. Open communication is extremely useful to make employees feel relevant. Difficult topics like layoffs or budget cuts may be reframed in a constructive way when they're communicated to employees, but they must not be kept in the dark to imagine the worst and get de-motivated.

### **CONCLUSION**

The importance of managing "human capital" of a company cannot be over-emphasized. A company may, of course, increase human capital by hiring more qualified and experienced employees but it is equally, if not more, important to focus on the existing workforce so that every employee performs at his or her highest potential. By adopting the strategies discussed above, a company can increase the human capital and gain an edge over the competition. In a world where technology can be replicated, processes copied and bettered, structures modified and adapted, it is only the power of a committed, loyal and highly skilled workforce that can give a company a distinct advantage.

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