HUMAN CAPITAL, HUMAN ASSETS & INTELLECTUAL CAPITAL

This essay discusses and explores the terms “Human Capital”, “Human assets” and “Intellectual capital”. Human capital is a way of defining and categorizing people’s skills and abilities as used in employment (Economic Review, 2004). According to Robert Heller, “A business can realize the benefits of its greatest asset by winning the hearts, minds and spirit of people”. Human assets are those personal qualities and characteristics that enhance the individual health, happiness and well being of each family member. The intellectual capital refers to the knowledge and knowing capability of a social collectivity such as an organization, intellectual community or professional practice (1998:245).

The essay also focuses the way in which these terms are beneficial to HR managers to use these terms to assist themselves and communicating and planning human resource management strategies.

Human capital is a way of defining and categorizing people’s skills and abilities as used in employment and otherwise contribute to the economy. It is a stock of asset one owns, which allows one to receive a flow of income, which is like interest earned. Human capital is substitutable i.e. it will not replace land, labor or capital totally, but it can be substituted for them to various degrees and be included as a separate variable in a production function.

While explaining human capital by the unique characteristics of knowledge: it is expandable and self generating with use. For example, a doctor gets more experience, her knowledge base will increase, as will her endowment of human capital. A free worker cannot sell human capital to receive money revenues, even a slave, whose human capital can be sold, does not earn an income himself or herself instead the slave owner gets the income under capitalism, to earn an income, a worker must submit to the authority of an employer who want to hire for a specified period of time.

This means that the employer must be receiving an adequate rate of profit from his or her operations, so that the workers must be producing surplus-value i.e. doing work beyond that necessary to maintain their labor power (www.marxist.org)

Following Becker, the human capital literature often distinguishes between "Specific" and "General" human capital. Specific human capital refers to skills or knowledge that is useful only to a single employer, who will be likely willing to pay for it, where as general human capital such as literacy is useful to all employers. Thus human capital represents the single greatest potential asset and the single greatest potential liability that an organization will acquire as it goes about is business. While there are intangible assets, human capital is the only intangible assets that can be influenced, but never completely controlled, invested in wisely or wasted thoughtlessly and still have tremendous value. These distinguishing features are what make human capital unique.

"A business can realize the benefits of its greatest asset by winning the hearts, minds and spirit of the people" (Robert Heller 2001).

Human assets are those personal qualities and characteristics that enhance the individual health, happiness and well being of each family member. They include our health, values, talents, heritage, attitude, habits and time. While in case of a firms human assets consist of the employees and the collection of their knowledge, skills and abilities also known as human capital. The firm can 'buy' the human capital by hiring employees and the firm can achieve human capital through, training, job experience etc. Most of the capabilities that a firm possesses can be linked to human capital and therefore this form of asset is considered critical for creating and sustaining competitive advantage (managing human assets in a uncertain world, 1999).

However human assets, like other forms of assets have several uncertainties associated with it. The future value of human assets can be uncertain for example performance of employees may go down over time or job responsibilities may change causing a misfit between the person and job. The number of employee’s demand may fluctuate according to the market conditions. There may be demand unexpected for skills that the employees do not possess. Also, the costs of human assets in the form of wages, salaries, benefits etc, may also be uncertain.

Human assets like other forms of assets have several uncertainties associated with it. There are three types of uncertainties in human assets – uncertainty of return, uncertainties of volume and uncertainties of cost. Uncertainty of return. The future value of human assets can be uncertain. For example performance of employees may go down overtime or change in job responsibilities. Uncertainty of volume and combinations - The number of employees demanded may fluctuate according to market conditions or unexpected demand for skills that the employees don’t possess constitutes this uncertainty. Uncertainties of cost- They are associated with the high and fixed cost of employees especially when revenues are volatile.

The top 10 areas to measure human assets, as recommended by Jack Fitz-enz, chair of the Saratoga Institute (now part of Spherion's Human Capital Consulting Group), in a recent issue of Workforce magazine (www. workforce.com), won't all apply to your company, but some will:

1. Your most important issues: These are the targets of all lower-level measures. Focus on them and ensure that your metrics lead in a direct line to them.

2. Human capital value added: How do your workers optimize themselves for the good of the company and for themselves? This is the primary measure of an individual's contribution to profitability.

3. Human capital ROI: This is the ratio of dollars spent on pay and benefits to an adjusted profit figure.

4. Separation cost. How many people are leaving? From which departments? What does it cost the company? The average cost of separation for an employee is at least six months' equivalent of revenue per employee.

5. Voluntary separation rate: Lost personnel equal potential lost opportunity, lost revenue, and the cost of workers having to fill the gaps under greater stress. Cutting the separation rate saves the cost of hiring and keeps customer service quality high.

6. Total labor-cost revenue percentage. This is total benefits and compensation cost as a percentage of organizational revenue and shows how much of what you are taking in through revenue goes to support the company's total labor cost, including temporary, seasonal, and contract or contingent workers. This metric can help you track changes in your workforce. Best approach: Compare it to your revenue factor and compensation, benefits, and contingent off-payroll costs. If the metric is rising, determine whether compensation or benefits costs are up or revenue is down. This will help you decide what actions to take.

7. Total compensation revenue percentage: This is the percentage of the company's revenues allocated to the direct costs of employees. It excludes costs for off-payroll employees who receive a 1099 form (as does the metric in number 6, above). Before creating strategies to address concerns, compare this metric to your revenue factor, compensation costs, and benefits costs to analyze what is happening with workers.

8. Training investment factor. Basic skills are crucial: Workers who cannot read, write, do simple calculations, or talk intelligently with customers need to have these skill deficiencies addressed.

9. Time to start. Recruitment will continue to be a challenge. The amount of the time it takes from approval of a job requisition until the person is on the job is a strategic indicator of revenue production.

10. Revenue factor. This is the basic measure understood by managers.

The accumulation of exceptionally talented individuals is not enough for the organization. There must also be a desire for the employees to invest their skills and expertise in the organization and their position. The individuals must commit or engage with the organization if effective utilization of human capital is to happen. In addition, therefore, to human capital, there must also be social capital and organizational capital. These three forums of capital contribute to overall concept of intellectual capital. For Nahapiet & Ghoshal (1998), intellectual capital refers to the "knowledge and knowing capacity of a social collectivity, such as an organization, intellectual community or professional practice" (1998:245)

Intellectual capital consists of both people and systems. The stock of human capital consists of human i.e. the knowledge skills and abilities of people social capital is the valuable relationships among people and the organizational capital is the processes and routines within the firm. (Wright et. Al, 2001:716)

Developing human capital therefore requires attention to these other complementarities. For a competitive advantage is to be achieved there must be integration between human, social and organizational capital, social capital increases the efficiency of action and aids cooperative behavior (Nahapiet & Ghoshal 1998)

Social relationship has an important influence on the development of both human and intellectual capital. For example individuals with better social capital and stronger contact networks will earn higher rates of return on their human capital (Garavan et.al 2001:52).

Attending to the conditions, under which people are prepared to share and act upon their knowledge is a major component of human capital management. The principle role of organizational capital is to link the resources of an organization. Together into process that create value for customers and sustainable competitive advantage for the firm (Dess & Picken 1999:11). Thus the connections between human capital, social capital and organizational capital will produce intellectual capital.

The suggested measuring approaches for intangibles fall into four main categories of measurement approaches. These categories are an extension of the classifications suggested by Luthy (1998) and Williams (2000).

1. Direct Intellectual Capital methods (DIC)

Estimate the $-value of intangible assets by identifying its various components. Once these components are identified, they can be directly evaluated, either individually or as an aggregated coefficient.

2. Market Capitalization Methods (MCM)

Calculate the difference between a company's market capitalization and its stockholders' equity as the value of its intellectual capital or intangible assets.

3. Return on Assets methods (ROA)

Average pre-tax earnings of a company for a period of time are divided by the average tangible assets of the company. The result is a company ROA that is then compared with its industry average. The difference is multiplied by the company's average tangible assets to calculate an average annual earning from the Intangibles. Dividing the above-average earnings by the company's average cost of capital or an interest rate, one can derive an estimate of the value of its intangible assets or intellectual capital.

4. Scorecard Methods (SC)

The various components of intangible assets or intellectual capital are identified and indicators and indices are generated and reported in scorecards or as graphs. SC methods are similar to DIS methods, expect that no estimate is made of the $-value of the Intangible assets. A composite index may or may not be produced.

These terms “Human Capital”, “Human Assets” and “Intellectual Capital” are inter related. They are very much useful to HR Managers for communicating and planning human resource management strategies. As human capital has uncertainties, a firm needs to manage these uncertainties. So that they do not affect the overall performance of the organization. Firms typically respond to adverse business conditions by down sizing, thereby losing valuable human capital with potentially adverse effects on the firm’s performance (Cascio, 2002).

Human resource practices are mechanisms through which the human capitals of the firm are acquired. Human capital helps the HR managers to keep the employees motivated, maintained and acquired. HR practices have many positive impacts on the firm. HR options are investments in the human capital pool of an organization that provide the capability to respond to future contingent events.

Human resource managers deploy human capital in order to limit downside risk and create opportunities for greater returns in the future. The HR options lie in allowing the firm to respond actively to uncertainties of human assets. Many of the HR practices are aimed at building a human capital pool able to deliver returns in the current time period under current conditions. However HR practices are also aimed at building a human capital capability to respond to future uncertain events (Wright and Snell, 1998). HR practices helps to build or maintain culture and communication.

A company needs its managers to manage properly its human capital and human assets under various circumstances. Risks in returns for investments in human capital cannot be ignored and to do so would result in greater, rather than less variability in relationships with employees over time. HR options generate the capability for use managing changes incriminatingly. The extent use of HR options and their usefulness will depend upon the extent of risks associated with the human capital of the firm.

In conclusion, many corporations around the world have found that measuring and managing intellectual capital can provide them with a competitive advantage. Adam Smith determined that human capital in different localities is valued in different ways. Human can be developed and cultivated, but it can also decide to leave the organization, become sick, disheartened and even influence others to behave in a way that may not be to the advantage of an employer. The performance of an organization’s human capital, human assets or intellectual capital is not predicable or within the control of the employer.

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