FACULTY OF JURIDICAL SCIENCES

Lecture-8

<u>Human Capital</u>

The term human capital refers to the economic value of a worker's experience and skills. Human capital includes assets like education, training, intelligence, skills, health, and other things employers value such as loyalty and punctuality. As such, it is an intangible asset or quality that isn't (and can't be) listed on a company's balance sheet. Human capital is perceived to increase productivity and thus profitability. The more investment a company makes in its employees, the chances of its productivity and success become higher.

- Human capital is an intangible asset not listed on a company's balance sheet.
- Human capital is said to include qualities like an employee's experience and skills.
- Since all labor is not considered equal, employers can improve human capital by investing in the training, education, and benefits of their employees.
- Human capital is perceived to have a relationship with economic growth, productivity, and profitability.
- Like any other asset, human capital has the ability to depreciate through long periods of unemployment, and the inability to keep up with technology and innovation.

The idea of human capital can be traced back to the 18th century. Adam Smith referred to the concept in his book *An Inquiry into the Nature and Causes of the Wealth of Nations,* in which he explored the wealth, knowledge, training, talents, and experiences of a nation. Adams suggested that improving human capital through training and education leads to a more profitable enterprise, which adds to the collective wealth of society. According to Smith, that makes it a win for everyone.

In more recent times, the term was used to describe the labor required to produce manufactured goods. But the most modern theory was used by several different economists including Gary Becker and Theodore Schultz, who invented the term in the 1960s to reflect the value of human capacities.

Schultz believed human capital was like any other form of capital to improve the quality and level of production. This would require an investment in the education, training, and enhanced benefits of an organization's employees

The human capital definition can be explained as an intangible asset stemming from a person’s talent and experience.

Human capital isn’t an official asset you can quantify on a balance sheet. But it’s still considered an economic value for a company.

That's 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

How to increase human capital

An obvious way to increase human capital is to hire more people.

But human capital isn't static. You can perform actions to improve it within your existing workforce.

Here are five ways that you can increase the human capital in your organization:

1. Improve education for your workforce

A highly educated workforce will be capable of achieving more.

You can provide training related to your industry. You can also sponsor employees to get college degrees or additional certifications. Leading companies also make sure they are providing ample opportunities for learning and professional development within the work itself. That might mean giving more decision-making authority, enabling people to pursue side initiatives, or pairing people with others they can learn from on collaborative projects. All of these options will help prepare them to take on more advanced roles in your organization.

People can always learn more. A company that invests in its employees' continued learning will keep growing its human capital without having to change anything else.

You'll also experience more employee productivity if your workforce sees that you value them. You will also see an increase in employee retention.

2. Provide a work culture that encourages creativity

Make some room for your employees to be creative. Creative thinking can lead people to innovate more. It can also lead to better employee engagement.

They can think outside the box and have better potential to solve problems in new ways.

Compare this to a culture that stifles creativity — such a culture limits what each person can achieve. The overall human capital suffers as a result.

3. Divide labor into specialized niches

Structure your company in a way that encourages specialized skill development.

The more someone specializes, the more they can focus on their zone of genius.

Instead of spending their resources learning several jobs, they can maximize their potential in one area of specialization.

By doing this, you get a workforce that's highly specialized and talented in several fields.

This is often better than a generalist workforce that does everything in a mediocre way (although many people and organizations have found successful ways to allow generalists to rotate through multiple specialties).

4. Hire a diverse workforce

A diverse workforce is made up of people from a variety of backgrounds.

When more people have different life experiences, they bring different competencies and points of view to the table.

According to a recent McKinsey study, executive teams with gender diversity are 25% more likely to achieve financial outperformance. The case for ethnic diversity is even better at 36%.

This is why embedding diversity, equity, and inclusion in your organization's DNA can help you increase your human capital. And that means paying attention to employee experience across the full recruiting cycle.

5. Provide ongoing coaching

Education doesn't have to come in the form of traditional training or formal education.

You can also coach your workforce to:

- Identify their strengths
- Improve their leadership behaviors
- Increase employee performance