

Chapter 4

The Fundamentals of Human Capital

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ABSTRACT

This chapter explains the overview of human capital; human capital and economic growth; human capital, innovation, and knowledge management; human capital and research and development (R&D); human capital, political regime, and foreign direct investment (FDI); human capital, employment, and labor markets; the measure of human capital; and the challenges and implications of human capital in the digital age. Human capital refers to knowledge, skills, and abilities acquired by an individual, traditionally through education and work experience. Human capital has a positive relationship with entrepreneurial success, business growth, and economic development. Creating an organization that relies on human capital for competitive advantage involves designing every organizational system with an essential approach to attracting, developing, retaining, and motivating the highly qualified people. The chapter argues that developing human capital has the potential to enhance organizational performance and gain sustainable competitive advantage in the digital age.

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INTRODUCTION

Many organizations are increasingly recognizing the value of their human capital toward increasing organizational performance (Lajili, 2015). Human capital refers to the knowledge, skills, and abilities to generate a given set of outcomes (Hitt, Bierman, Shimizu, & Kochhar, 2001). Human capital in firms in terms of education, experience, and cognitive skills and the firm's overall access to human capital has a positive impact on firm productivity (Backman, 2014). The human capital of a firm as manifested by employee knowledge and experience represents an important resource of a firm's capabilities (Schulz, Chowdhury, & van de Voort, 2013).

Human capital provides a competitive advantage for firms in terms of skills, expertise, and their willingness to work (Hewitt-Dundas, 2006). Human capital investment is the most important input for the advancement of science and knowledge (Gallié & Legros, 2012). Human capital investment decisions are linked to the success of a business and ultimately to the probability of survival (Wyatt & Frick, 2010). The slow investment in human capital affects the sustainable development of the countries (Pelinescu, 2015). The compatibility between person and organization is encompassed in a research aimed to analyze the elements of human capital in an organization, such as training, competences, expertise, experience, creativity, and innovation (Zlate & Enache, 2015).

In any period, there are two types of capital (i.e., physical and human capital). Physical capital is accumulated during life through investment, while the human capital stock increases by allocating time to education (Alessandrini, Kosempel, & Stengos, 2015). The major elements of shared human capital are values, tacit knowledge, and social support (Suhonen & Paasivaara, 2011). Human capital and brand equity constitute a firm's most valuable resources (Vomberg, Homburg, & Bornemann, 2015). Firms and policymakers are faced with many constraints in light of the continued economic downturn and reduced budgets, indicating a need to take advantage of existing resources, human capital being one such resource (McGuirk, Lenihan, & Hart, 2015).

This chapter aims to bridge the gap in the literature on the thorough literature consolidation of human capital. The extensive literature of human capital provides a contribution to practitioners and researchers by describing the theory and applications of human capital in order to maximize the impact of human capital in the digital age.

Background

In the 1990s, strategic management interest in human capital became more widespread because it appeared that human capital could be a firm-level resource capable of enhancing competitive advantage (Fagan & Ployhart, 2015). Human capital is

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