

# Chapter 7

## Human Capital Development

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### **ABSTRACT**

*The main purpose of the chapter is to provide a contemporary view of human capital (HC) based on recent research and from a theoretical perspective. Based on this, the chapter demonstrates the significance of individual knowledge, skills, and qualifications—human capital—for organizational outcomes and consequently economic growth. Although the concept of HC can be traced back to the work of Schultz with a considerable body of literature, the inherent dilemma with HC is that, unlike the organizational capital that a firm possesses, HC is an intangible asset that can simply leave and never return. Recently, an emerging stream of literature has attempted to unify both the individual and organizational level perspectives of HC and examine how they are related to competitive advantage. Given these considerations, in this chapter, HC will be viewed as a bridging concept where HC serves as a link between human resource (HR) practices and organizational performance in terms of building a worker as an asset. The chapter also presents the key approaches to HC measurement.*

### **INTRODUCTION**

This chapter aims to demonstrate the significance of individual knowledge, skills and qualifications -human capital- for organizational outcomes and consequently economic growth. Although the concept of human capital (HC) can be traced back to the work of Schultz (1961) with a considerable body of literature, the inherent dilemma with HC is that, unlike the organizational capital that a firm possesses, HC is an intangible asset that can simply leave and never return. On this basis,

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recently, an emerging stream of literature has attempted to unify both the individual and organizational level perspectives of HC and examine how they are related to competitive advantage. Yet, an important question that remains without an accurate answer is how to unify both the individual and organizational level perspectives of HC within an economic context and then examine how they relate to competitive outcomes. Given these considerations, in this chapter, HC will be viewed as a bridging concept where HC serves as a link between human resource (HR) practices and organizational performance in terms of building a worker as an asset. The purpose of adopting this concept is to show the importance of HC development in contemporary organizations and in the future economy and explore its association with strategic human resource management (HRM). The chapter also presents the key approaches to HC measurement.

The chapter is structured as follows. In the opening section the concept of HC will be demonstrated through the lens of the literature. In exploring HC development and its relationship with firm's performance, the second section focuses on firm performance in the context of HC development and how HC impacts firm performance associated with the concept of HC and based-competitive advantage, the third section sheds light on HC measurement, then the fourth section focuses on the impact of HC on economic growth

## **AN OVERVIEW OF THE HC CONCEPT**

Since the initial definition of HC by Schultz (1961), who suggested that HC consisted of the “knowledge, skills and abilities of the people employed in an organization” (p.140), the term has been developed by scholars such as Becker (1993), who defined HC as the “knowledge, information, ideas, skills, and health of individuals” (p.3). Based on this, the concept of HC has been conceptualised in a variety of ways in the management literature. The HC theory is rooted back to the economist Becker (1964). Since then, the study of HC has emerged across a variety of disciplines, such as the management area, both the strategy and HRM fields have shown considerable attention to the concept of HC (Wright & McMahan, 2011).

Edvinsson and Malone (1997) viewed HC as a sub-component of intellectual capital in their (value platform) model of intellectual capital management, while Dzinkowski (2000) argued that managing HC within organizations has been drawn from human resource management (HRM) practices. Moreover, HC is typically accumulated through education, training, and working experience on knowledge specific to an organization and/or task (Alan et al. 2008). Rastogi (2002) stated that HC's knowledge, skills, and abilities is an important input for organizations' outcomes. Thus, the Organization for Economic Co-Operation and Development

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