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Transforming Human Resources into Human Capital

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Abstract: Human resource refers to the stock of productive skills and technical knowledge embodied in labor. It is tangible in nature. Many early economic theories refer to it simply as labor, one of the three factors of production, and consider it to be a fungible resource -- homogeneous and easily interchangeable. The goal of human resource management is to help an organization to meet strategic goals by attracting, and retaining employees and also to manage them effectively so that they deliver productive outputs. The key word here perhaps is "fit", i.e. a HRM approach seeks to ensure a fit between the management of an organization's employees, and the overall strategic direction of the company. Human capital instead, refers to the intangible aspect of human resources. It enhances the value of employees by striking a win-win goal for employers and employees. It focuses on the intrinsic value of each employee, where any expenditure on employees is regarded as an investment rather than an expense. The varying talents and motivations of employees are given cognizance so that incentives and working arrangements can be created to enhance each employee's contributions to organizational performance. This paper distinguishes human capital from human resources and how human resource may be transformed into human capital.

Key Words: *Human Capital, Human Resource, Organizational behavior*

1. Introduction

Since the industrial revolution in the early l8th century, the processes of industrialization were immense with the emphasis on production for the market. This was also the beginning of what we called the birth of the capitalist system which focuses on maximizing profit and minimizing cost (Wallerstein, 1980). The relationship between the workers (labor) and the owner (entrepreneur) was on the basis of exploitation where the owner of the capital pressured the workers to work longer hours with minimal wages, and severe working condition in return for higher profits. Marx, in many of his arguments, argued that capitalism is a historical specific mode of production, where each mode of production contained in general a pair of opposed classes, a class of direct producers and a non producing class which exploits them (Edwards, 1985). However, the discussion here is not on Marx theory or on the effect of capitalism but on one of the factors of production which determines the success of modern day organizations. The focus is predominantly on the contribution of human resources in the knowledge economy. In contrast to the contribution of human resources towards financial capital in the industrial economy, the present contribution of human resources are geared towards generating value to the organization which renders its performance to be more sustainable. Therefore, the main objective of this study is to assess and evaluate how organizations treat and make sense the role and contributions of their human resources.

Human resources, or employees, are perhaps the most critical resources a firm possesses because human capital underlies any organizational capability in the sense that organizations do not make decisions or allocate resources; people do (Ulrich & Lake, 1991). Organizations actually capitalize on the employees' ideas to leverage the financial and physical resources to create financial returns. By combining competent employees with multiple complementary human resources practices, a firm can attain competitive advantage as these combined resources become heterogeneous across the firm making them socially complex and difficult to imitate (Barney, 1991; 1995). By increasing the extent of human capital through the use of strategic human resource practices, employees' skills and capabilities can be developed to meet the demands of unpredictable environmental changes. The result of this adaptation process creates unique routines and procedures that have limited value outside the firm (Pennings, Lee & Witteloostuijn, 1998). Upon achieving this, the firm's human capital becomes firm-specific and can subsequently bring positive impact on performance.

2. Literature Review

The Concept of People

In any organization, the role of people is very important and crucial in determining its success or failure. As one of the factors of production, people or the human capital complements and manages the other inputs which include financial resources and physical resources to achieve its goals. Too often, managers forget how important the people factor is to the success of an organization (Robbins, 1978). Many managers have failed to understand this statement because they themselves have taken its human resources for granted. However, this phenomenon gradually changed when many organizations have begun to focus on human capital and put it as a top priority in their strategic plans. With the current business environment being so competitive, a company which has successfully maximized its human resources often becomes the market leader.

In the era of globalization and the concept of privatizations where profit is the only vocabulary; it has been observed that the role of people is not merely as a factor of productions but has become the tools to justify the means. As a result, in the absence of knowledge within the employees or workers themselves, the element of exploitation may continue to exist in day-to-day process of production, although not in the true sense of Marx's interpretations because in return they were paid handsomely. However, Steven Warburg, the founder of Warburg implied that people in organization has been managed and treated like cows in order to attained production targets. He believes this kind of treatment of people is inappropriate especially in the ways to manage and to lead them. The reason being, people are different from cows where in the present context, the new breed of workers expect more from their job (Robbins, 1978). They are willing to fight back rather than being used as economic tools, what matters is to see the increased efforts being made toward improving their job contents.

Organizational Motive

No doubt, the existence of organization is to attained goal (Robbins, 1978). An organization without goals has no sense of purpose. This has been the motives for many organizations to initiate profits, and in any corporate objectives or in formulation of strategy to fit the environment; the goals of achieving profits remain the ultimate target. Therefore, when the actual strategy is implemented, the utilization of the resources must be up to the maximum level. In doing so, the management remain the essential elements of maximizing the use of the resources. In today's business world, management is very crucial. By definition, management is the process of working with and through others to achieve organizational objectives in a changing environment (Kreitner, 1995). However, there are many incidents where the performance of an organization is questionable; poor productivity, losses to company, incompetent workers, no commitment, low moral are a few of the signs which implied poor management. Organizations can have the capital, the assets and other resources, but if the management fails to lead their workers, the bottom-line is that what they have is a mediocre or under-utilized labor. On the other hand, some organizations may be able to achieve high productivity and good performance, but then the way they treat their workers with authority and power to focus on production by denying their rights and voices has been disapproved by many human resource experts.

Productivity in any types of organization is very important as it measures the economic health (Kreitner, 2006). For managers, who are the leaders in an organization, organizational productivity is more relevant. Organizational productivity is the ratio of an organization's total output to total input, adjusted for inflation, for a specified of time (Kreitner, 2006). Given this common goal, a manager has the responsibility to ensure that during his/her tenor to give the utmost output at the end of the day. How the manager achieves this objective is secondary. Therefore, the situation where a worker has been exploited indirectly to attain the goals is obvious at times. Extended working hours, meeting deadline, review of targets, appearance of stress among staff, job changing, yearly leave not fully utilized and staff low motivation are signs where working people has been pressured to give more in their works.

Productivity

How much is a productive worker worth? A lot of indigenous effort has gone into putting a cash value on the production worker (Cook, 1993). Even though accountants have tried to do it through human resource accounting, they were not successful. Defining productivity is not easy; it is complex and can pose great problems. The most common indicator especially in the private sector such as banking, insurance or other manufacturing firm is the use of profit to measure level of productivity. However, this measurement is still subjective as it is not reflective of the overall contribution of every worker.

A person as a human being is emotional and subjected to a lot of needs and wants and differs in many ways from animal as they are able to think and objected to being used and abused. As Maslow aptly states in his hierarchy of needs theory where he pointed out that there are five level of work motivation; basic needs, security needs, social needs, esteem needs, and self actualization needs (Luthans, 1995). Therefore, if a person is being treated as a 'cow', milking them non-stop, by end of the day even with the basic needs that they have may not be able to motivate them. The outcomes will create a group of workers which have the attitude of working 'nine to five' without the zest of improving organizational objectives. The freedom or the understanding of both physical and emotional needs of the workers has not been recognized by the organizations. In the end, they view their work as meaningless, and perceive themselves as powerless to correct this situation (Robbins, 1978).

Rather than create 'robots' in a working environment, organizations do have the responsibility to develop a more useful, meaningful and competent workers. How can these demanding objectives can be achieved? The most common approach as perceived by many organisations is to have a good leadership. Organizations, especially the business-motivated ones, recognize the need for leadership as the only way employees can ever have the satisfaction of really feeling they are identified with the enterprise for which they work (Colllier, 1968). In reality, what happened without realizing it is that many organizations have failed to exploit the usefulness of leadership and tie it up with the development of the workers and their importance. Business leadership can be democratic in the sense of providing the maximum opportunity for growth to each worker without creating anarchy (Colllier, 1968).

Human Capital

Human capital refers to the intangible aspect of human assets. A firm's physical aspect of the human capital is only relevant at the hiring and selecting phase of the human resource practices. Thereafter, the firm is more concerned with the flexible components of human assets found in the skills, knowledge, and capabilities of the employees to accomplish any given tasks in pursuit of the organizational goals (Edvinsson & Malone, 1997; Wright & McMahon, 1992). The theory of human capital of the old economy implied that human participation in production processes constituted a form of capital. Much of the theoretical and empirical foundations of studies were focused on the premise that firms derived economic benefits from their investment in people (Sweetland, 1996). Human abilities were categorized under the physical asset of the organization where the concern of the firm is on the productive output of its employees. One initial study of human resources had focused on the management of people broadly grouped under the categories of selection, training, appraisal and rewards (Wright & McMahon, 1992). As such, economic remuneration of employees bore a direct relationship with the level of education and the length of work experience.

However, with focus changing towards the intangible aspects of human resources, strategic human capital practices have evolved to become more purposive and context specific and its development are aligned to support the organization's strategic plans and needs. The multi-dimensional aspects of human capital, which encompass the tangible and intangible aspects, static and dynamic aspects and industry-specific and firm-specific aspects become the focus of human resource management in an effort to enhance performance. The intangible aspects of human capital include the skills, knowledge, and abilities that employees use to accomplish tasks at hand, and ultimately achieve organizational goals (Edvinsson & Malone, 1997; Youndt & Snell, 1996). While it is important to hire

competent individuals from the start, it is this intangible and flexible component of human capital that organizations seek to understand and control through the use of human resource practices. Barney (1991) advocates the use of firm resources to create sustained competitive advantages by conceptualizing human capital as a source of sustainable competitive advantage. The later work of Barney (1995) reaffirms this combination because the way these two resources are combined is heterogeneous across firms and the combination is socially complex and more likely to be inimitable. This view is supported by Finkelstein and Hambrick (1996) whose work showed the importance of human variables in strategic choice and firm performance. To achieve competitive advantage, a firm now looks to combining competent employees with the flexible components of human resource practices. Competitive advantage based on human capital that incorporates the complex structure and interactions of people is much more difficult to imitate than the competitive advantage derived from physical and financial capital (Teece, 1998).

Basically, the human capital theory as espoused by Becker (1964) is entrenched in the resource-based view of the firm with specific focus on tangible and intangible dimensions of human capital. The concern of firms regarding their tangible human capital is on labor costs relative to future productivity and seeking return from investing in developing the skills and knowledge of their employees and how to prevent such skills from being transferred to another firm. The intangible dimension, on the other hand, is concerned with the strategic relevance of competencies developed from acquisition and sharing of knowledge. The emphasis is on exploiting employees' knowledge to achieve internally developed core competencies that are valuable, rare, inimitable and non-transferable (Barney, 1991; Hamel & Prahalad, 1990).

3. Discussion

However, given the job security, the rewards of wealth and with the promise for the best benefits, employees allow themselves to be utilized to the fullest to the extent of losing their self-esteem (Luthan, 2007). Of course, this phenomenon is not to be blamed solely on the workers which also include the middle management. More often than not the types of leadership which has targeted to achieve, practice the so called "be strong" styles of management (Sayles & Strauss, 1968). Take for example the banking line, it is common practices for the management to set goals in order to increase profit for their chief executives or the shareholders. Constant pressures are exerted on the executives to ensure that these goals are met. Some companies even deliberately set their goals very high. As one top management, quote (Sayles & Strauss, 1968):

> "My *philosophy is always, give a man more than he can finish. That way you can be sure you are getting the most out of him"*

This implies that the management will use whatever opportunity to squeeze their employees to the limit to achieve goals set by them; not unlike using 'cows' to work the fields all days in order to produce more harvests. In this competitive world, any firm will use any means and all the management expertise to achieve their goals. The use of technological innovations, adopting various model of management invented by renowned management gurus, spending on training, cost conscientiousness, are various tools used by modern organizations to increase profits and this trends are widely practiced.

Apart from that, in trying to understand organizational behavior, the elements of power and politic also contribute to people being 'squeezed' of their energy to maximize production. With power, there is the ability of one person in an organization to influence other people to bring about desired outcomes (Demings, 1986). In meeting certain deadline, managers, at times, do not hesitate to exercise their power to achieve their goals. In a worst case scenario, such situation creates what is often called management by fear, a fear of defying the boss may motivate the staff to play office politics or keep side with the boss (Demings, 1986). Such political motives which are not sanctioned by the organization are very dangerous, because it leads to the abuse of power and manipulation of a resource to obtain one's preferred outcomes (Drunmond, 1993). What is amazing about this trend and in today's world of achieving

competitive advantage, companies or institutions will find whatever ways and means to achieve organizational goals even if the act causes them to deviate from some of the management ethics or procedures.

4. A Contemporary Perspective

In a business environment where productivity and maximizing profit is the bottom line, effective utilization of resources is very much emphasized. Hence, people become one of the resources that had to be used to the fullest. In many literatures on human resource management, people have been proven to be the determining factor in the success of any organization. People include their physical, intellectual, emotional, social, political, spiritual and all other forms of development (Rao, 1996). Therefore, it is an accepted culture in some organization to inculcate the value of working hard to achieve organizational goals. More often than not, posters and slogans showing writings of 'working hard for your organization' are used liberally to remind and reiterate to the staff the need to consistently work hard. To support the work hard policy, rewards are often used as the motivating factor to ensure that the staff stays loyal and do not complain.

Nevertheless, things started to change where, firms and companies begin to give their fullest attention to their workers. As Warburg (Warburg) reiterated that in leading any organization, managing and leading people is very delicate as it involves development initiatives rather than treating them as a commodity. With today's focus on the competitive advantage of a nation, companies continue to focus on human resource development as one of the factors in creating of a more productive, skilled and adaptable workforce (Porter & Jenkins, 1996). Although much have been undertaken by firms to create a favorable organizational climate, there still exists imbalance between rewards and job satisfaction resulting in some firms having below average performance due to dissatisfaction and low motivation level among employees. As such, focus and emphasis on production where people are treated as a commodity is now becoming a thing of the past. In the present work environment, job satisfaction and creating a motivating climate is more on the agenda of any corporate objectives. Staff welfare is being given higher priority through the setting up of assessment centre, flexible rewards system, bonus plan, goals-oriented performance appraisal, organizational development and flexible work schedules (Hiltrop, 1996). Assumptions of this new outlook is to reduce many negative 'end-products' of workings, such as industrial actions, stress, low morale, no commitment and motivation. More companies are now giving attention to their human resources since employees have high expectations, needs and personal desires which make the work options for employees and employers more varied and complex (Devanna et al., 1982).

Therefore, in leading people in organizations the use of anarchy or authority is no more acceptable. Management and workers should have the understanding of each other's functions in achieving organizational goals. While managers and leaders have their objectives to achieve what has been outlined in their corporate plan or any organizational policies, the workers have obligations to abide and follow the needs and instructions of their superiors. What workers expect is a chance to increase their usefulness, creativity and a chance to develop their full potential as individual within the scope of their environment and experience (Collier, 1968). Storey (2007) suggests that human capital ought to be nurtured as valued assets, and not be regarded as an incidental cost. Human resources, or employees, are perhaps the most critical resources a firm possesses because human capital underlies any organizational capability in the sense that organizations do not make decisions or allocate resources; people do (Ulrich & Lake, 1991). Organizations actually capitalize on the employees' ideas to leverage the financial and physical resources to create financial returns. By combining competent employees with multiple complementary human resources practices, a firm can attain competitive advantage as these combined resources become heterogeneous across the firm making them socially complex and difficult to imitate (Barney, 1991; 1995). By increasing the extent of human capital through the use of strategic human resource practices, employees' skills and capabilities can be developed to meet the demands of unpredictable environmental changes. The result of this adaptation process creates unique routines and procedures that have limited value outside the firm (Pennings, Lee &

Witteloostuijn, 1998). Upon achieving this, the firm's human capital becomes firm-specific and can subsequently bring positive impact on performance.

The contribution of human capital to firm performance is basically from the flexible components of human assets found in the know-how, capabilities, skills and expertise manifested within the firm's employees (Edvinsson & Malone, 1997). It is largely tacit in nature and does not belong to the firm. Therefore, when an organization hires, develops and retains the best people, some degree of firm specificity of human capital created impacts transaction costs and can strongly influence the decision to internalize employment resulting in an increase in human capital value (Lepak & Snell, 1999). By attributing to the resource-based view of the firm, Lepak and Snell (1999) also hold the view that the uniqueness of human capital brings value to the firm when they enable a firm to implement strategies that improve efficiency and effectiveness, exploit market opportunities, and/or neutralize potential threats. It is this value that enables a firm to achieve the competitive advantage or core competence. Hence, human capital can be said to be the most critical resource in most firms as it is the attributes of human capital like education, experience and skills that form the basis of firm strategies and their implementation. These attributes, when interacted with tangible resources, bring positive impact to performance as a result of the firm's unique resource endowments.

5. Conclusion

For an organization to have the competitive edge, it must not only place the importance on their corporate strategy which is often outlined impressively but more often than not, rather impractical. However, there is an interest among the corporate world to 'talk-up' human resource management as a coherent new strategy of employee relations that paves the ways to achieving competitive advantage (Legge, 1995). Pushing workers to the limits to maximize productivity and increased profits will end up creating robots or uncreative workers leading to a form of exploitation. Such environment, would lead to negativities such as low productivity, low quality, stress, no commitment, no motivation and conflicts, to mention few. The traditional way of managing people by autocratic or the styles of 'throwing files' to their staff is no more valid in today's business environment. Workers now are more sensitive and critical of their leaders or their management styles and would not hesitate to react and create a conflict if they feel they are being 'used and abused'. A research finding shows both aggressive and apathetic behaviors were deemed to be reactions to the frustration caused by an autocratic leader (Luthans 2007).

Thus, it is not surprising that Stephen Warburg (Warburg) disapproved of treating workers like cows merely for the purpose of production does not reflect the quality of a good management. Concerns for the welfare of staff, career path, performance appraisal, rewards, promotion, giving training, job rotation and most of all recognition is the most essential activities for the workers as far as human resource development is concerned. Thus, the functions of human resource department in most organizations have been widened to encompass the organization's strategic objectives. Human resource planning must, therefore, be developed along the strategic perspectives that capture the wider context of human resource development represented by the human capital.

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