

Translation of human resource into a human capital

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Abstract

The process of understanding the model of conversion of human resource into human capital in strategic business terms has just begun. Human Capital is the strategic and coherent approach to the management of an organisation's most valued assets - the people working there who individually and collectively contribute to the achievement of the objectives of the business and this human resource is totally dependent on the behaviors of all the managers and organizational development practitioners because individual and collective behaviors are the creators of an organization's culture and structure. Research on human capital as followed several trajectories; the extent of conversion of human resource into human capital, conversion process of human resource in to human capital and factors contributing to human capital theory. This research uses the cases of conversion process of human resource in to human capital with its affecting factors. This research has the edge of authenticity and reliability of all of its contents as it is done by questioning 98 top level managers of human resource intensive organization of Pakistan. The researchers find that the organizations need a series of interventions in the process of conversion of human resource in to human capital for prosperity.

Keywords

Organizational Development, Human Capital, Human Resource Management

1. Introduction & Background

We believe that this HR architecture raises a number of research issues worthy of further investigation. It is therefore encouraged researchers to examine whether a firm's emphasis on one mode of employment for all employees versus the use of multiple modes for different groups of human capital impacts firm performance. If this framework reflects organizational reality, much of the current strategic HRM research may be overly simplistic, ignoring the possibility that firms may engage in more than one type of employment mode and rely upon different HR configurations to manage different employee groups (Lepak and Snell, 1999). Actions taken by society directly influence the creation and the maintenance of human-capital values. Expenditures for education, training, health, and migration may contribute to the value of our human resources. Expenditures on the detection, treatment, and the prevention of accidents and floods and on the provision of adequate housing and diets-all these preserve and

enhance the values of our human resources, just as do maintenance and improvement expenditures on physical capital. Investments in human resources are not alone sufficient to insure rapid economic growth, let alone an effective democracy or a problem-free society. But it now appears that, as a society, we are paying too little attention to our enormously valuable stock of human capital, while we focus great attention on conventional investment. Health and education programs are primary devices for raising productivity and speeding social progress. Government has a critical role to play in promoting an effective human-resource-development program. The challenge is there to be seized (Weisbrod, 1996). The value of human capital can be influenced by a multitude of sources, such a firm's strategy and technologies (Arthur, 1992; Snell & Dean, 1992). It is noted that an employee's potential contribution increases dramatically when firms implement advanced manufacturing technologies. They refer to this impact on the value of human capital as the transformation from touch labor to knowledge

workers. Yet, although internalization of human capital may enhance a firm's core capabilities and lower transaction costs, it also accrues managerial and bureaucratic costs (Jones & Hill, 1988; Jones & Wright, 1992). Employees can add value if they can help firms offer lower costs or provide increased benefits to customers because, value of human recourse has a direct impact on the performance of firms. Human resource is really extensive in its nature and effectiveness in some parts of the world like Pakistan, where the human resource is indulged in agriculture with no special education and training of agro-skills generally, but yet it is fruitful for the prosperity of humanity. So it is strongly needed to organize the process of conversion of human resource into human capital by taking serious steps to make evergreen the outcome of short-termed human resource (Fafchamps, Quisumbing, 1999). If we discuss the human capital as the best source of obtaining a firm's goals, then it would clear the reason very much, that, human resource is much in need of being worked out to bring it up to the level of human capital and big organizations of modern age are practicing on this phenomenon (Fisher, Govindarajan, 1992). The firms and organizations must differ in the human resource and its capabilities; because untrained, trained and experienced persons have the only difference of capabilities which is leading to evaluate the ordinary human resource as a human capital. But it strongly depends upon the behavioral decision making of the capable and influencing top management; otherwise a nominal productivity level would be attained without any emerging steps towards the prosperity (Amit, Schoemaker, 1993). CEO pay has complex links to several factors: firm size, complexity, performance, CEO power, board vigilance, and the CEO's human capital. The study includes a separate examination of CEO salary and bonus (Finkelstein, Hambrick, 1989). Based upon a human capital argument, it is suggested that managers who are over-reliant on salary and less reliant on incentive pay, will make less-risky competitive decisions and thus favor product-line diversification and increased expenditures for marketing efforts as a hedge against the inherent uncertainty in technology-intensive industries. In contrast, we hypothesized that less reliance on salary would result in the more-risky investments of R&D and innovation-oriented activities. In addition, compensation programs containing long-term performance elements would encourage a long-term perspective, and thus greater investment in R&D, capital equipment, and employee training. A manager with a long-term perspective will typically invest in employee training since it is perceived that the present value of the future cash flows associated with a well-trained employee base will likely exceed the current training cost, whereas a short-term orientation will typically minimize training costs since the short-term cost of training often exceeds the short-term benefits. In addition, a short-term-oriented manager will always be cognizant of the inherent risk of employee training investments-ever since the abolition of employee ownership in most industries (professional sports being the most notable exception) it is essentially impossible for a firm to recover a significant amount of an employee's training cost should that

employee choose to leave the organization (Galbraith, Merrill, 1991). The process of understanding the model of conversion of human resource into human capital in strategic business terms has just begun. Hence, it has been an empirically and theoretically supported direction. As with all basic paradigm shifts, it will take time to become accepted, and perhaps several generations of 'normal' management science to fully articulate. The impact on competitive advantage makes beginning an urgent priority in human capital concept (Istvan, 1992). Organizational survival is not strictly a function of economic performance but also depends on a firm's own threshold of performance. We apply this threshold model to the study of new venture survival, in which the threshold is determined by the entrepreneur's human capital characteristics, such as alternative employment opportunities, psychic income from entrepreneurship, and cost of switching to other occupations (Gimeno, Folta, Cooper, Woo, 1997). Executive compensation has long been recognized as an important mediating mechanism between the wishes of a firm's owners and the strategic behavior of that firm's management. Most theoretical development and empirical analysis to date, however, has primarily focused on the effect various compensation programs have upon 'corporate-level' or diversification strategy. In addition, most of this work is based upon economic and finance theory with little regard for the nuances of strategic measurement, although recently some significant efforts have been made to place the issue of executive compensation within the context of strategic management theory (Gomez-Mejia, Tosi, Hinkin, 1987). It is argued that tastiness, complexity, and specificity in a firm's skills and resources can generate causal ambiguity in competency-based advantage, and thus raise barriers to imitation. Reinvestment in causally ambiguous competencies is necessary to protect the advantage. Without reinvestment, attritional effects of continued competitive action will cause decay in the barriers to imitation. From this theorizing, research propositions are suggested, which, ultimately, will lead to an improved understanding of competitive advantage like human capital's sustainability (Reed, Defillippi, 1990). Despite the consistency with which the theoretical and normative connections between human resource management practices and firm-level performance outcomes are made, empirical studies that link the two are sparse. This paper presents results from a study of 319 business units that addresses this gap. Hypotheses are derived from a resource-based perspective on strategy. Positive and significant effects on labor productivity are found for organizations that utilize more sophisticated human resource planning, recruitment, and selection strategies. These effects are particularly pronounced in the case of capital-intensive organizations (Koch, McGrath, 1996). Those holding the resource based view of the firm suggest that resources are valuable when they enable a firm to enact strategies that improve efficiency and effectiveness, exploit market opportunities, and/or neutralize potential threats. Accordingly, the value of human capital is inherently dependent upon its potential to contribute to the competitive advantage or core

competence of the firm. Like other organizational assets, employee skills can be classified as core or peripheral assets (Barney, 1991; Quinn, 1992). Core assets, in particular, are vital to the competitive advantage of an organization (Porter, 1985) and often require continual internal development (Quinn, 1992). So, this research study focused on the relationship of Behavioral Decision Making, Compensation and Training Programs and Organizational Structure and Decision Making with human capital of the organization.

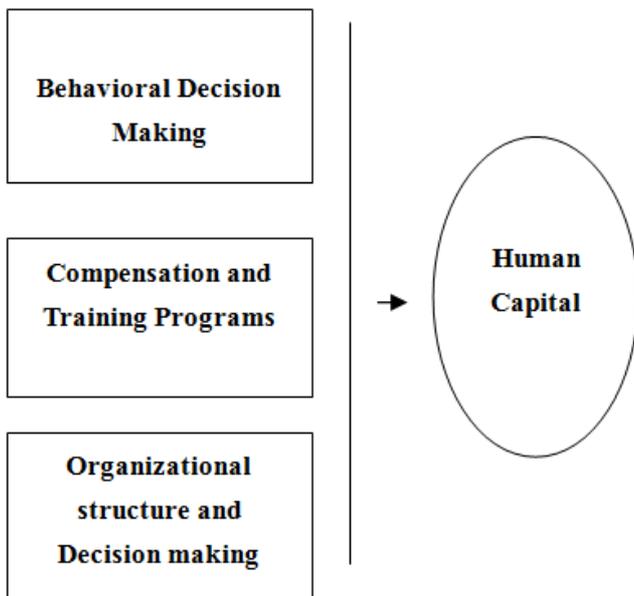
2. Methodology

There are four variables which are used in the model of this research work, out of which, three are independent and one is dependent variable. In the following lines variables are explained to understand the model for better approach:

Behavioral Decision Making (behdes): ‘Behavioral decision making’ is a vital factor which can affect the dependent variable in a radical mood. Behavioral decision making can positively increase the process of conversion of human resource into human capital.

Compensation and Training Programs (comtran): ‘Compensation and training programs’ can affect the dependent variable inversely because in a case of unnecessary compensations and over-estimated salaries can cause the ineligibility of human resource.

Organizational Structure and Decision Making (orgstr): ‘Organizational structure and decision making’ causes good utilization of human resource to engage them in their career development. The model of this reach study is given below.



Model. Translation of Human recourse into human capital

Human Capital (hum Cap): ‘Human capital’ is the dependent variable of our research model which is the central variable as our all research work is revolving around its development from human resource. So, It is hypothesized that;

Ho = Conversion of human resource into human capital is

the best way to prosper in the organizations.

Hi = Conversion of human resource into human capital is not the best way to prosper in the organizations.

To evaluate the theory described in this section it is necessary to describe data collection method and sources. The required criterion was to question the management level of the selected organizations so that they would be more reliable and authentic in their response. Data of four variables at the time of analysis gathered from different organizations, universities, and banks of the country. The collection period of the data is one month. Sample size is one hundred and applies multiple regression tests on these data. The results show that these variables are fit for this research work and good relationship with each other in the conversion of human resource into human capital.

3. Results

The development of human resource up to human capital is not a simple change and requires a series of interventions. The purpose of this section is to analyze and interpret the data. The model shown in the equation is tested on the various organizations of corporate level in Pakistan. Analysis is as follows:

When data is tested on 98 respondents outputs of the results are mentioned in table 1. Their views about the human capital as dependent variable are the means as 1.4082 and deviate by 0.49402. Behavioral decision making as 1.3469 and deviated by 0.47844, Compensation and training programs as 1.5714 and deviated by 0.51773, Organizational structure and decision making as 1.6224 and deviated by 0.48727. This shows that the mean and standard deviation has a lean towards the second option of the questionnaire which is “NO” that interprets, our most respondents were disagreeing with the variables mentioned which will be elaborated in the next phase of models further.

Table 1. Descriptive Statistics

Variables	Mean	Std. Deviation
behdes	1.3469	.47844
comtran	1.5714	.51773
orgstr	1.6224	.48727
humCap	1.4082	.49402

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Table 2. Correlations

Variables	behdes	comtran	orgstr	humCap
behdes	1	-.226	.037	-.038
comtran		1	.006	-.438
orgstr			1	.090
humCap				1

The Pearson correlation matrix obtained for four variables is shown in table 2. When behavioral decision making reduces by -0.038 then it supports the human capital theory by -0.038 which is less efficient as compared to another. Maximum effect on human capital theory is by the variable 'compensation and training programs' by -0.438, while Organizational structure and decision making by 0.09, while other variables are less effective in impact. From the results; we see that the correlation of the human capital is positive with the organizational structure and decision making that is 0.090 and negatively or inversely correlated with both the variables; compensation and training programs and behavioral decision making with -0.438 and -0.038 respectively.

Table 3. Regression

R	R Square	Adjusted R Square	Std. Error of the Estimate
.470	.221	.196	.44294

To test the hypothesis multiple regression analysis was done. The results of the regressing the three independent variables against human capital can be seen in table 3. The first table in model summary output list the three independent variables that are entered into the regression model and R (0.470) is the correlation of the three independent variables with the dependent variable.

In the model summary table, the R Square (0.221), which is the explained variance, is actually the square of the multiple R (0.470)².

Table 4. Coefficients

Variables	Standardized Coefficients	t	Sig.
HumanCapital		8.339	.000
behdes	-.148	-1.588	.116
comtran	-.472	-5.047	.000
orgstr	.098	1.079	.284

The next table titled as Coefficient helps us to see which among the three independent variables influence most the variance in Human Capital. If we examine the column of Beta under standardized coefficients, we see that the highest numbers in the beta are 0.472 of compensation and training programs which are significant at .000 levels, and 0.148 of Behavioral Decision Making which means if there is an increase in these two variables, it will inversely affect the human capital. This table shows that the value of F-test is 8.888 and the significant level is 0.000 so it is indicated from this table that it is a best fitted model for research of "conversion of human resource into human capital" in Pakistan and the model is helpful for further research in future.

4. Conclusion

Human Capital is the strategic and coherent approach to the management of an organisation's most valued assets - the people working there who individually and collectively contribute to the achievement of the objectives of the business and this human resource is totally dependent on the behaviors of all the managers and organizational development practitioners because individual and collective behaviors are the creators of an organization's culture and structure. This research uses the cases of conversion process of human resource in to human capital with its affecting factors. The purpose of this review consisted in presenting existing situation of the human resource and its development up to human capital and the methodologies in this process in Pakistan and it is more useful and more comprehensively elaborated than the general sources of the reference. The evidences presented in this paper has shown that the conversion process of human resource into human capital has prominent impacts on the prosperity of individuals as well as the organization itself so it is emphasized that an organization must invest on its human resource to convert it up to the extent of human capital in such a way that organization and the human resource are well-bonded with each other getting their respective prosperous benefits.

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