International Journal of Academic Management Science Research (IJAMSR)
ISSN: 2643-900X
Vol. 9 Issue 3 March - 2025, Pages: 370-375

Human Capital Theory: Viewing Employees As Organizational Asset

Ebiasuode Awu, Ph.D1, Blessing Darius, Ph.D 2, Mgbomo Philomina Chimele, Ph.D3

Department Of Management, Ignatius Ajuru University Of Education, Rumuolumeni, Port Harcourt, Rivers State, Nigeria

ebiawu@gmail.com

Department Of Management, Ignatius Ajuru University Of Education, Rumuolumeni, Port Harcourt, Rivers State, Nigeria

dariusblessing@gmail.com

Department Of Management, Ignatius Ajuru University Of Education, Rumuolumeni, Port, Arcourt Rivers State, Nigeria

philtell@yahoo.com

Abstract: *The study examines human capital theory in viewing employees as organizational assets. Human Capital Theory (HCT) has emerged as a foundational concept in economics and organizational studies, positioning individuals' skills, knowledge, and experiences as crucial assets for enhancing productivity and economic performance. This study explores the evolution of HCT, emphasizing the shift from viewing employees merely as cost centers to recognizing them as valuable organizational assets. Pioneered by economists such as Gary Becker and Theodore Schultz, HCT posits that investments in education, training, and employee well-being lead to increased productivity and profitability for organizations. Key dimensions of human capital, including educational attainment, skills and competencies, health and well-being, and social capital, are examined to highlight their interrelated roles in driving organizational effectiveness. Furthermore, the study discusses the implications of adopting a strategic approach to human resource management (HRM), which aligns workforce development with overarching business goals, fostering employee engagement and innovation. By illustrating the economic and social benefits of recognizing employees as assets, this study underscores the necessity for organizations to prioritize human capital investments. In doing so, organizations can better navigate the challenges of the modern labor market, enhance competitive advantage, and contribute to broader societal goals of economic growth and social equity.*

Keywords: Educational Attainment, Human Capital Theory, Health and Well-Being Organizational Asset, Skills and Competency, and Social Capital.

INTRODUCTION

Human capital theory (HCT) is a central concept in economics and organizational studies that emphasizes the value of investing in individuals' skills, knowledge, and experience as a means of enhancing productivity and economic performance (Becker, 1964; Schultz, 1961). The foundations of human capital theory were laid by economists such as Gary Becker and Theodore Schultz, who posited that education and training increase individuals' productivity and earning potential, directly impacting economic growth (Becker, 1964; Schultz, 1961). Becker (1993) refined the theory, suggesting that human capital is not only about education but also includes health, experience, and personal attributes. The notion that individuals can (and should) invest in their own human capital underpins many contemporary discussions surrounding workforce development and labor economics. The origins of human capital theory can be traced back to the early works of economists who began to recognize the significance of human attributes in economic development. In the 1960s, Becker published seminal works that suggested the accumulation of "human capital" through education and training was essential to improving productivity and income. Becker argued that individuals act rationally in investing in their human capital, weighing the costs of education against the anticipated benefits in future earnings (Becker, 1993).

Jacob Mincer's contributions further solidified human capital theory by introducing a quantitative framework to measure the returns on education and experience. His studies demonstrated a strong correlation between educational attainment and earnings, illustrating that individuals with higher levels of education generally earn more over their lifetimes than those with less education (Mincer, 1974). Human capital theory also encompasses the concept of skills and competencies beyond formal education. As the economy increasingly shifts towards knowledge-based industries, vocational training and lifelong learning have become vital components of human capital. The emphasis on soft skills, critical thinking, and adaptability reflects the changing nature of work and the need for workers to continuously update their skill sets in response to technological advancements and market demands (Friedman & Mandelbaum, 2011). In a globalized economy, human capital theory becomes even more critical. Countries compete on a global scale, and those with a well-educated and skilled workforce are better positioned to innovate and attract investments. Nations such as Singapore and Finland have leveraged human capital development to achieve remarkable economic success, demonstrating that comprehensive education and training can lead to high levels of productivity and social well-being (Hanushek & Woessmann, 2008). Furthermore, investing in human capital has implications for social equity and inclusion. Access to education and training is often uneven across different socio-economic groups, leading to disparities in labor market outcomes. Policymakers who prioritize human capital development through inclusive education and vocational programs can address these inequities, stimulating economic growth while fostering social cohesion (OECD, 2018). As such, human capital theory not only contributes to economic efficiency but also to achieving broader social goals.

Despite its strengths, human capital theory has faced criticism over the years. Some critics argue that it may oversimplify the complexities of labor markets, ignoring structural factors that influence employment outcomes, such as discrimination and socio-economic barriers (Bowles & Gintis, 1975). Additionally, the measurement of human capital presents challenges due to the difficulty in quantifying skills and competencies that do not directly correlate with formal education (Gordon & Brewe, 2018). Moreover, the rise of technology and automation raises questions about the future value of certain skill sets in the labor market. As AI and machine learning technologies continue to evolve, workers may need to adapt quickly to changes in job requirements, suggesting that the nature of human capital is more dynamic than previously understood (Brynjolfsson & McAfee, 2014). Human capital theory remains a pivotal framework for understanding the relationship between education, skills, and economic productivity. It underscores the necessity of investing in individuals' potential to drive economic growth and social progress. As economies continue to shift towards knowledge-based models and face challenges from technological advancements, the principles of human capital theory will be indispensable for policymakers and educators aiming to equip the workforce for the future.

According to Becker (1964), human capital can be accumulated in different forms of education, training, migration, and health. Through such forms, employees gain knowledge, skills, and abilities in different ways. Firms invest in human capital because these firms view humans as an asset and expect that what the firm has invested will be returned and provide a positive value in the future. In other words, an individual invests in their schooling or training and anticipates that the knowledge and skill earned will enhance their career advancement. Ulrich (1998) argued that traditionally human resources of labor and business functions have been viewed as a cost to be minimized. However, nowadays, human resources are now viewed as human capital, which leads to a source of value. Still, Phillips (2005) said that there has been a tremendous paradigm shift that has occurred in the concept of human capital from the traditional to the present.

However, the study examines the human capital theory, viewing employees as organizational assets.

Concept of Human Capital Theory

Human capital theory refers to the attributions of individuals that enhance their ability to perform labor and generate economic value, which include education, training, work experience, health, and social skills. Human capital theory has been considered one of the economic theories of HRD (economics theory consisted of human capital theory, scarce resource theory, and sustainability theory) according to Swanson (1999), who stated that "because performance improvement takes place in organizations that are economic entities, PI (performance improvement) must call upon economic theory at its core. In addition, management theories and methods should be properly viewed as useful derivatives of economic theory." In order to survive in a competitive, knowledge-based economy as well as keep sustainability, human capital as an economic theory needs to be considered seriously. Human Capital Theory can improve a firm's performance and explain the significance of labor maximization and how an organization can accumulate employees' knowledge, skill, and ability by investing in humans through training and educating to enhance an employee's capacity to work effectively. From the human capital definition as presented and the definitions of HRD of Swanson & Holton (2004), it was said that "HRD is a process for developing and unleashing human expertise through organization and personnel training and development for the purpose of improving performance." McLean and McLean (2001) asserted that HRD is any process or activity that, either initially or over the long term, has the potential to develop adults' work-based knowledge, expertise, productivity, and satisfaction, whether for personal or group, team gain, or for the benefit of an organization, community, nation, or ultimately, the whole of humanity." Nafukho et al. (2004) stated that "the field of HRD could benefit from a greater understanding of how human capital scholars have clearly defined methods of quantifying return on investment in education and training." For the definition, there is a relationship between training and development, knowledge, skills, and abilities, which leads to the performance at a broader level up to an international level. At the national scope of HRD, HRD has been linked to national policies in various countries (Mclean, Bartlett & Cho, 2003). The evolution of the concept of National Human Resource Development (NHRD), human capital theory as the foundation of an emerging NHRD that is defined by Gary N. McLean (2006) as cited in McLean (2014) who states that "National human resource development (NHRD) is an undertaking at the top level of government and throughout the country's society that coordinates all activities related to human development (HD) to create greater efficiency, effectiveness, competitiveness, satisfaction, productivity, knowledge, spirituality, and well-being of its residents. It includes education, health, safety, training, economic development, culture, science and technology, and any factors that influence HD".

Successful organizations adopt the human capital concept for their organization; according to Nalbantian et al. (2003), successful organizations insist on system thinking, get accurate data and facts, focus on value in the organization as well as the organization's need to clarify human capital strategy carefully while understanding the organization's internal labor market, build a suitable strategy, and never make a decision before collecting and analyzing the facts in human assets, making acquisitions work, linking to customer satisfaction, and having concern for the implication of business risk. However, human capital theory cannot function alone. It needs to integrate with various HRD theories such as system theory, psychology theory, and other economic theories such as scarce resource theory and sustainable resource theory (Swanson, 1999). Brymer et al. (2012) argued that human capital needs to be applied together with the concept of knowledge management because there is a dynamic interrelationship between knowledge and behavior in cognition and human capital. However, Hitt et al. (2001) advance the idea that human capital theory needs to cooperate with resource-based theory in order to contribute a positive result to organizational performance.

DIMENSIONS OF HUMAN CAPITAL THEORY

Human capital theory has emerged as a cornerstone for understanding the role of education, skills, and training in enhancing an individual's economic productivity. This study aims to explore the various dimensions of human capital theory, which can be classified into several key areas: educational attainment, skills and competencies, health and well-being, and social capital. Each dimension contributes to an individual's and society's economic outcomes.

Educational Attainment

Educational attainment is arguably the most prominent dimension of human capital theory. Historically, Becker (1964) laid the groundwork for understanding how education increases productivity by enhancing individual skills. The relationship between higher education levels and earnings has been extensively documented. For instance, Mincer (1974) posits a direct correlation between years of schooling and income, indicating that education not only provides knowledge but also signals productivity to employers. Moreover, the concept of lifelong learning has gained traction in the context of human capital, emphasizing that education must be continuous to cater to an evolving job market (Schultz, 1961). In an increasingly knowledge-driven economy, higher educational qualifications often correlate with better job prospects and higher wages (Oreopoulos & Petronijevic, 2013).

When entering the labor market, the fundamental problem for any graduate concerns his work environment, which is the economic environment (the situation on the labor market, the income levels, and the potential for development) and the social environment (social structures and networks of affiliation and inter-human relations). To this, one can add the physical environment of the organization, even the cultural one. Coleman’s research proved, even since 1966, that the school results have no connection with the resources that the teaching institution has, either material, human, or curricular ones; but rather they are tightly related to the nature and character of the students, measured by looking at the number of students with encyclopedias in their home and the proportion with high aspirations. This fact confirms that university graduates have more opportunities, including those related to their professional integration. (Ștefãnescu et al., 2013).

The changes in the occupational structure of a society at a given time influence the professional trajectory of a person and his occupational status acquired, with the individual trajectory acting on other factors, too, such as personality, human, social, and cultural capital of his own and of his parents, the residential environment, and motivational factors (income, needs, work conditions, inter-human relations, etc.). The occupational structures are flexible; they are modified according to the requests for the workforce and to the technological changes, production, and organization, also according to the offer for the workforce and its educational level. Such changes, simultaneous to the growing number of university graduates, could lead to either a constraint of the personnel to accept the existing workplaces, sometimes under the personal qualification level, or an adaptation of the occupational structures to the workforce’s height of the professional qualifications. (Ștefãnescu et al., 2013).

Ongoing spending toward education and health are investments made specifically for the growth of the economy and the prosperity of the citizens. Mincer and Becker show in their study the strong links bounded by human capital and labor income and that there are variations of incomes according to the degree reached by an individual during the years spent for education and professional practice; the earnings increase according to educational degree.

Skills and Competencies

While educational attainment is crucial, the development of specific skills and competencies has also become a focus within human capital theory. Skills can be broadly categorized into "hard" skills (technical abilities) and "soft" skills (interpersonal skills). The OECD (2019) suggests that a combination of both hard and soft skills is essential for workplace success, highlighting that the labor market increasingly values these competencies. Furthermore, the concept of "employability" has arisen, referring to an individual's ability to secure and maintain employment through the continuous development of relevant skills (Jackson, 2021). This dimension reflects the dynamic nature of human capital, indicating that individuals must adapt to changes in technology and labor market demands. The main principle of the HCT states that skills acquired through training lead to higher productivity, reflecting increased wages; thus, education and training become investments. Employers anticipate training of their employees’ expenditure dividend as expected with other investments. The benefits of the investment depend on the training charge and the increase in salary costs versus the productivity increase. (Becker, 1975)

Health and Well-being

An often overlooked but critical dimension of human capital theory is health and well-being. Individuals in good health are generally more productive and face fewer barriers in the workplace (Wilkinson & Pickett, 2010). The positive correlation between health and labor market outcomes has been well documented (Fitzgerald, 2013). Health investments, much like education, are considered a component of human capital, justifying policies that promote health as a means to enhance productivity. Moreover, mental health has gained attention as an essential factor contributing to overall human capital. Research by McDaid et al. (2021) highlights the significant economic costs associated with mental health issues, suggesting that investments in both physical and mental health yield substantial returns in productivity and workforce participation.

Health as a component of human capital has generated a great interest in the literature, both from the theoretical point of view and the empirical perspective. If traditionally human capital is associated with the worker's education/skills, more recently it has assumed a broader notion to include health factors. The idea that human capital accumulation could be improved by investing in the population's health was already advanced in the sixties by Schultz (1961) and Mushkin (1962) and gained definitive relevance after Grossman's (1972) pioneer work. Indeed, Grossman (1972) was the first to consider explicitly this issue, relating a higher preference for health (as a consumption good) to more educated individuals. According to the same author, health can also be seen as a capital good, since the production of health determines how much time is spent in labor. Healthier individuals are less likely to be absent from work due to illness, and so they are more productive. In this context, health status is an important part of human capital, directly linked with education, and it can be defined as an individual's health stock. Like physical capital, health capital depreciates over time, but individuals can invest to improve their health status.

Social Capital

The final dimension of human capital theory encompasses the concept of social capital. Social networks and relationships can significantly enhance an individual's ability to access job opportunities and resources (Putnam, 2000). The interconnectedness of social capital with human capital is evident as relationships facilitate knowledge sharing and collaborative learning, which can enhance both individual and collective productivity (Bourdieu, 1986). In this sense, social capital contributes to economic outcomes by allowing individuals to leverage their networks for mentorship, job referrals, and collective problem-solving within organizations (Granovetter, 1973). This dimension reinforces the notion that human capital is not merely an aggregation of individual attributes but is also shaped by social interactions and connections.

EMPLOYEE AS ORGANIZATIONAL ASSET

An employee as an organizational asset is a strategic approach that emphasizes the value of human capital in driving an organization's success. This fosters a culture of investment in people, enhancing performance and engagement. Employees possess skills, experience, and knowledge that contribute significantly to the organization's effectiveness. Most organizations treat employees as assets, recognizing their potential to innovate and problem-solve, which can lead to a competitive advantage. Historically, the traditional view of employees underscored their role as cost centers within organizations, prompting a focus on minimizing labor expenses (Becker, 1964). Early industrial approaches regarded employees as replaceable components within a mechanistic framework. This perspective began to shift with the introduction of human capital theory by Becker (1964), who posited that individuals bear skills, knowledge, and experiences that can be economically valuable. This transformative theory laid the groundwork for a strategic outlook on workforce management, advocating for the investment in human resources as a means of enhancing organizational effectiveness.

The notion of employees as organizational assets aligns closely with concepts of human capital, emphasizing the economic value of employees' skills and competencies (Schultz, 1961). Bontis (1999) elaborates on this perspective by illustrating how organizations derive competitive advantages through their human resources. The recognition of employees as valuable assets entails more than mere acknowledgment; it encompasses developing systems that leverage their skills to strengthen the overall organizational performance. This perspective encourages a shift from cost-cutting measures to strategies that value employee contributions as integral to success. The emergence of strategic human resource management (SHRM) further accentuates the idea of employees as organizational assets. SHRM emphasizes aligning human resource practices with broader organizational strategies to cultivate a workforce that is engaged, skilled, and capable of driving innovation (Wright & Nishii, 2007). By integrating HR practices into the organizational framework, companies can unlock their human resources' potential, thus enhancing productivity and performance. This strategic approach fosters a mindset that views employee development as critical to achieving overarching business goals.

One critical aspect of viewing employees as assets is the emphasis on employee engagement, which has been shown to significantly impact organizational outcomes. Kahn (1990) introduced the concept of employee engagement as the emotional and cognitive investment employees make in their work roles. Engaged employees tend to exhibit higher levels of productivity, creativity, and commitment to the organization. As organizational assets, employees who feel valued and engaged contribute to a positive work environment and organizational culture, thereby driving performance improvements and reducing turnover rates (Saks, 2006). Adopting the perspective that employees are valuable assets cultivates an environment conducive to innovative work behavior. De Jong and Den Hartog (2007) assert that organizations recognizing and supporting employee initiatives and creativity can drive innovation capacity. In today's knowledge economy, where adaptability and creativity are crucial, organizations must encourage an environment where employees feel empowered to share ideas and challenge conventional practices. This innovative thinking is crucial for organizations seeking to navigate rapidly changing markets.

Implications for Practice

The recognition of employees as organizational assets carries significant implications for HR practices and organizational policies. By prioritizing investments in employee training, development, and engagement, organizations can enhance their collective capability (Huselid, 1995). Comprehensive training programs and robust performance management systems become essential to strengthen human capital and foster loyalty and satisfaction among employees. Organizations must shift from cost-focused strategies to value-driven approaches that prioritize employee development and well-being.

Measuring the Value of Human Capital

As organizations embrace the notion of employees as assets, there is an increasing necessity to measure and articulate the value of human capital. Metrics that evaluate employee performance, engagement levels, and skills development play a crucial role in demonstrating this value to stakeholders. By establishing clear indicators of human capital contribution, organizations can make informed decisions about resource allocation and strategic investments, rewarding employees and continuously improving HR practices.

Conclusion

The 'Human Capital Theory' (HCT) offers an organized conception of how people's abilities, skills, knowledge, and health impact the economy and organizational success. The elaborative theory of HCT was built upon the foundational works of economists Gary Becker and Jacob Mincer, who highlighted the importance of education, skills, and health investment; thereby treating people as capital. HCT is increasingly more relevant as contemporary economies become more dependent on skilled and knowledgeable human resources since there is an ever-growing need to adapt to new technologies and market changes. Moreover, recognizing employees as organizational assets marks a fundamental shift in management practices, allowing businesses to foster engagement and creativity while maximizing their human capital. This perspective not only promotes individual growth but also contributes to broader social equity by emphasizing inclusive access to education and professional development. While challenges remain, including the complexities of measuring human capital and addressing structural inequalities, the principles of HCT are essential for guiding policymakers and organizational leaders in their efforts to cultivate a skilled, adaptable, and empowered workforce. As companies work to adapt to a new work environment, the fundamentals of human capital theory will undoubtedly be crucial not only in increasing economic value but also in creating a better and more sustainable society. By spending on social networks, health, education, and skills, human capital can be enhanced with the intention of raising productivity at a collective level, meeting new challenges, and participating for a sustainable future.

REFERENCE

Becker, G. S. (1993). *Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education. U*niversity of Chicago Press.

Bowles, S., & Gintis, H. (1975). The Problem with Human Capital Theory: Classical Theory or Neoclassical Fallacy. *American Economic Review, 65*(2), 74-82.

Brynjolfsson, E., & McAfee, A. (2014). *The second machine age: Work, progress, and prosperity in a time of brilliant technologies*. W. W. Norton & Company.

Becker, G. S. (1964). *Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education*. University of Chicago Press.

Becker, B. E., & Huselid, M. A. (1998). High performance work systems and firm performance: A synthesis of research and managerial implications. *Research in Personnel and Human Resources Management*, 16, 53-101.

Becker, G. S. (1964). *Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education.* Chicago: University of Chicago Press.

Bourdieu, P. (1986). The forms of capital. In J. Richardson (Ed.), *Handbook of Theory and Research for the Sociology of Education* (241-258). New York: Greenwood.

Bontis, N. (1999). Managing organizational knowledge by diagnosing intellectual capital: Framing and advancing the state of the field. *International Journal of Technology Management*, 18(5/6), 433-462.

De Jong, J. P. J., & Den Hartog, D. N. (2007). How leaders influence employees' innovative behavior. *European Journal of Innovation Management*, 10(1), 41-64.

Friedman, T. L., & Mandelbaum, M. (2011). *That used to be us: How america fell behind in the world it invented and how we can come back.* Farrar, Straus and Giroux.

Fitzgerald, T. (2013). The impact of health on labor productivity. *Journal of Business & Economics Research*, *11*(1), 17-26.

Granovetter, M. S. (1973). The strength of weak ties. *American Journal of Sociology, 78*(6), 1360-1380.

Gordon, N. J., & Brewe, E. (2018). Measuring human capital: Lucky or skillful. *Journal of Economic Perspectives, 32*(3), 115-130.

Grossman, M. (1972). On the concept of health and the demand for health. *Journal of Political Economy, 80*(2), 223-255.

Hanushek, E. A., & Woessmann, L. (2008). The role of cognitive skills in economic development. *Journal of Economic Literature, 46*(3), 607-668.

Huselid, M. A. (1995). The impact of human resource management practices on turnover, productivity, and corporate financial performance. *Academy of Management Journal*, 38(3), 635-672.

Jackson, D. (2021). Employability skill development in higher education. Education *and Training, 63*(6), 1052-1065.

Kahn, W. A. (1990). Psychological conditions of personal engagement and disengagement at work. *Academy of Management Journal*, 33(4), 692-724.

Mincer, J. (1974). *Schooling, Experience, and Earnings*. New York: National Bureau of Economic Research.

Mushkin, S. (1962), Health as an Investment. *Journal of Political Economy*, 70(5), 129–157.

McDaid, D., Knapp, M., & Parsonage, M. (2021). The economic case for mental health interventions. *The Lancet Psychiatry, 8*(3), 234-241.

Oreopoulos, P., & Petronijevic, U. (2013). *The 21st century skilling of the world*. Social Science Research Network.

OECD. (2018). *The Future of Education and Skills: Education 2030*. OECD Publishing

OECD. (2019). *Skills strategy 2019: Making a difference in lives and livelihoods*. Paris: OECD Publishing.

Putnam, R. D. (2000). *Bowling alone: The collapse and revival of American community*. New York: Simon & Schuster.

Saks, A. M. (2006). Antecedents and consequences of employee engagement. *Journal of Managerial Psychology*, 21(7), 600-619.

Schultz, T. W. (1961). Investment in human capital. *American Economic Review*, 51(1), 1-17.

Schultz, T. W. (1961). Investing in people: The economics of population quality. *The Journal of Political Economy*, *70*(5), 313-324.

Wilkinson, R., & Pickett, K. (2010). *The spirit level: Why more equal societies almost always do better*. London: Allen Lane.

Wright, P. M., & Nishii, L. H. (2007). Strategic HRM and the role of human capital. *In The Handbook of Human Resource Management* (pp. 405-453). Blackwell Publishing.