

Significance of human and social capital

Table of Contents

Question 02.....	3
2.0 Significance of human and social capital	3
2.1 Human capital	3
2.1.1 Creativity and innovation.....	3
2.1.2 Knowledge and skills improve the management decision.....	4
2.1.3 Add value to the end product or service.	4
2.1.4 Gain competitive advantage	4
2.1.5 Increase customer’s satisfaction.....	5
2.1.6 Economic and social importance of human capital.	5
2.2 Social capital	5
2.2.1 Social capital support to improve human capital and organization strategy.	6
2.2.2 Social capital help to gain competitive advantage	6
2.2.3 Improve the decision making skills	6
2.2.4 Improve knowledge management.....	7
2.2.5 Easy to buildup relationships in new markets.	7
References	9

Question 02

2.0 Significance of human and social capital

Currently, organizations highly invest on human and social capital since it is believed that better human and social capital improve the performance of the organization. Both these aspects are interconnected and support to gain sustainable competitive advantage and productivity. Considering scarcity of the resources, productivity is crucial concern for every business in current competitive business environment. Researches prove that there human and social capital contribute to improve the productivity of individual and it contribute to improve overall organization's productivity. However, one of main issues of profitability are that is not very clear what exactly cause to improve the productivity and it is difficult to measure the productivity. Therefore, it is tricky to identify impact of the human and social capital.

2.1 Human capital

Human capital can be defined as the knowledge, skills, competencies and traits personified in individuals which relevant to particular economic activity. When it comes to company, human capital means the knowledge, skills, competencies and traits of labor force (Goldin, 2014). Firms invest on employees in different aspects such as education, training, health, welfare and etc. and expect that these investment improve the productivity of the company. Company expect the return on investment exceed the cost that incurred to develop human capital. Therefore, labor force is considered as driving force to gain sustainable competitive advantage and productive asset not as a costly asset. However, it is difficult to assess and measure the impact of human capital.

2.1.1 Creativity and innovation.

The sustainability of the company depends on their ability to rebuild. This reconstruction will be achieved by adapting the objectives to the current situations and improving the processes for achieving those goals. Therefore, organizations need to promote creativity and innovation as non-creative organizations become extinct (Daft, 1998). Human capital of the company is highly important to improve the creativity and innovation of the company. However, there need to be innovation culture to encourage employees' creative and innovative thinking. Skills and competences of the individuals are the key for this aspects since it is limited to improve the creativity and innovation through training.

2.1.2 Knowledge and skills improve the management decision.

Empowering employees to make decisions motivate them and management can find better solution for problems by collective decision making. It is easy to manage the motivated employees since there lack of resistance for organizational change.

Knowledge management has been influenced by various factors such as human resources, leadership change, organizational development, information technology, management credit, performance evaluation and value creation (Edwards & Foley, 1998). Knowledge management is all about how effectively use the knowledge and it is a part of the innovation process. (Field & Spence, 2000). There is correlation between organized knowledge and financial growth of the firm. According to Drucker, knowledge is the central resource for financial growth of the company and employees are the central force. Knowledge management and intellectual capital is significant for new product development too.

2.1.3 Add value to the end product or service.

Human resource support to the company by adding value to the end product or service and conducting comprehensive quality procedure. Employees in different level work together to achieve common set of objectives and defining the value, set the mission and goals, develop strategies and implement them to add value to end product or service. Value adding process can be strengthen through employee motivation and training program.

2.1.4 Gain competitive advantage

In order to gain a competitive advantage, the company need to differentiate its products and services from its competitors by recruiting more talented and qualified employees than its competitors. Competencies of employees such as communication, flexibility, creativity, hardworking and etc. are highly important to create competitive advantage to the company (Armstrong, 2008). The quality of the product is highly depended on competence, experience and skills of the employees. In service sector, some of employees directly deal with customers. Therefore, quality of the service is depended on attitude and soft skills of the employees. Further, intellectual assets developed by work force are highly significant and bring direct competitive effects to the market.

2.1.5 Increase customer's satisfaction.

Customer satisfaction of the service sector is directly depended on the employees who directly work with customers. Better quality of service create positive intention in customers' minds and build up customer loyalty towards the company. Therefore, customer's loyalty toward company is mainly depend on the employees' attitude and behavior. Especially service companies need to focus on this.

2.1.6 Economic and social importance of human capital.

It is clear that accumulation of knowledge directly impact to increase the efficiency. In advanced economies, where GDP growth has increased, the level of training level of workers and professionalism are comparatively high. Social aspects it improve the social security, urban development, health factor and etc. in the society and long term economic growth. When the economy is growing, eventually it positively to impact to the employees. The social capital of a country promotes the well-being of society and has a direct influence on the quality of goods and services. Further, not only skills and competencies, health of the employees also come under human capital (Becker & Gary, 1964). Therefore, some companies highly invest to improve the health condition of the employees. Value of the organization is also depended on human capital. Human capital comes under intangible assets and organization need to takes to improve the human capital by developing skills and competencies of the employees. The optimal human capital depends on various factors, such as health of the capital market and how safe the economy and politics are.

2.2 Social capital

Social capital essentially encompasses the significance of social relationships and systems that emphasize economic capital for the economic growth of a firm. Social capital is an important component that support to the success of the company. Social capital can be simply defined as invest on buildup social relationship expecting return in the market place (Hitt, 2002). The aspects such as trust among the employees, employees' job satisfaction, quality of communication among employees, higher management and stakeholders need to consider when it comes to social network. Social capital consider the significance of these social networks and how to use these relationships the best possible way to achieve the organization's objectives. According to Drucker (1993), social capital is opportunities that individual received via relationship with other

colleagues and different stakeholders. Tsai and Ghoshal (1998) argue that values and norms related with relationships connect to social capital. There are many definitions and concepts about social capital. However, every concept discuss about relationships or relationship network among employees or employees and organization. Therefore, relationship is the most important aspect of social capital.

2.2.1 Social capital support to improve human capital and organization strategy.

Employees' relationship with important customers or suppliers add value to individual employee's human capital and eventually add value to the organization. In this kind scenario, firm's social capital has become a part of its supplier or customer's social capital. Therefore, firm's social capital connects with its higher management and employees' relationships with external and internal parties (Field & Spence, 2000). Therefore, social capital contribute to strengthen the human capital. Organization strategy is based on the resources of the organization and human capital play a critical role in firm's strategy. Since, social capital leverage human capital, both of these resources support to implement firm's strategy. Firm's relationship with all its stakeholders provide input to strategic implementation.

2.2.2 Social capital help to gain competitive advantage

The quality and strength of the firm's inter relationship leverage the value creation process and support to overall success. Firm's relationship with suppliers and customers can bring competitive advantage to the firm. Especially, strong relationship between different stakeholders is useful in distribution process and those relationship can be used in different stages of value chain to add to the end product or service (Edwards and Foley, 1998). Social capital help to improve the productivity via collaboration between different stakeholders. Therefore, improved productivity can be used to gain the competitive advantage.

2.2.3 Improve the decision making skills

Due to strong social capital, firm can get higher level outside support. Therefore, management can take better decision about profit margin, competitor analysis, marketing decision and etc. especially social capital is useful to understand the internal and external business environment and make relevant decisions according to environment.

2.2.4 Improve knowledge management

In current competitive business environment, firms need to explore, absorb and apply the knowledge. Firm need to explore and acquire knowledge from externally and develop and apply the knowledge internally (Pasban and Nojehdeh, 2016). Therefore, interaction between different parties is highly important to manage the knowledge. Social capital is very useful to access the knowledge use as shared knowledge and collective knowledge to find solution for common problems. Social capital facilitate share the knowledge between different firms and fulfill the knowledge gap. Especially, this is useful for resource exchange, product innovation and create intellectual capital.

2.2.5 Easy to buildup relationships in new markets.

Social capital is highly important for multi-national companies since these companies need to integrate all the businesses located all over the world and need to deal with different kind of many external stakeholders. Multinational companies use social capital effectively to facilitate business expansion and gain competitive position. Not only multi nation, even any firm expect to geographically expand the business, social capital is vital to build up new relationships with key stakeholders.

Relationship between human and social capital is crucial for sustainable development of the organization. Relationship of both human and social capital has been shown in below table.

Table 01 – Relationship between human and social capital.

	Human capital	Social capital
Focus	Individual employee	Relationship
Measure	Training duration	Attitude / values/
	Qualification	
Results	Direct – productivity, higher profit	Direct - Financial achievement
	Indirect – health,	Indirect - Social cohesion
Model	Linear	Interactive

(source: Amstrong, 2008)

Productivity and higher revenue and profit are the outcomes of the human capital. Social capital can be basically connected to financial performance (Fukuyama, 1996). Other than that, both human and social capital support firm to gain competitive advantage in the market. Organization need to invest time and funds to develop human capital and expect economic return. On the other

hand, there need to be less linear approach to develop social capital and it is not easily to define the return. However, firms need to consider both these aspects to develop to gain competitive advantage in the market.

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