A REVIEW ON HUMAN CAPITAL; TWO PRINCIPAL IDEAS PREDOMINANTLY GENERIC HUMAN CAPITAL AND SPECIFIC HUMAN CAPITAL FOR ORGANIZATIONAL PERFORMANCE

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Abstract:
Today the businesses suffer with many complexities. The recent downturns in various economies, saturated business markets, globalized business approaches challenged the traditional organizational designs, approaches and processes. The organizations have realized the importance of Human Capital (HC) to face the business challenges. Those who capable of handling such complexities with HC capabilities will win even with high competition. Scholars highlighted that there are many approaches developed to measure and report human capital. Those organizations that plan, organize, develop, manage and align employee behaviours that shape the real work with HC strategies achieve the Organizational Performance than those who do not. HC includes self-generating, expandable, transportable, and shareable characteristics. The economic value of an organization stands not only on its tangible assets but on intangible assets.

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too whereas HC is considered as an ‘intangible asset’. This paper reviews the impact of HC on Organizational Performance from various critical perspectives. This study revolved how HC concept systematically evolved in intellectual progression encompass with two principal ideas such as Context Generic HC and Context Specific HC. The cognitive ability of an individual is considered as Context-Generic Human Capital whereas Context-Specific Human Capital of individuals could be measured by the dimensions such as “value”, “rareness”, “inimitability”.

**JEL:** J20; J24; L25

**Keywords:** context generic human capital, context specific human capital, human capital practices, organizational performance

### 1. Introduction

In reviewing literature Saunders et al., (2009) cited in Khalid et al., (2012) argued that proper literature reviews help researchers to examine the earlier contributions made by the scholars to understand the limitations of the scholarly synthesis carried out by the historians. Sekeran and Bougie (2014) elaborated that a good Literature Review incorporates proper referencing etc. This literature review is revolved and grounded on “Human Capital” (HC) to examine how investment and development of HC drivers under the Context-Generic Human Capital, how it triggers on individual behavioural practice such as Context Specific Human Capital thus make an impact on Organizational Performance.

Through a comprehensive review of literature it was found that a variety of definitions and ideas have evolved with multi-disciplines such as Human Resource Management, Economics, Intellectual Capital and Accounting; despite many other trendy approaches, HC has become more relevant among consultants, business practitioners etc. HC is not belonged to any organization; HC is secured only with the employment relationship (Dash et. al., 2013). HC literature remains highly fragmented Unger et al., (2011) cited in Afiouni, (2013). The main purpose of this literature review sets forth to uncover the gray areas with regard to the two elements of HC such as Context-Generic Human Capital and Context-Specific Human Capital.

### 2. Emergence of the Human Capital

The evolution of Human Capital (HC) idea goes back up to year 1776 argued by Odhong and Omolo, (2015) where Perera and Weerakkody stated that HC was first coined by Adam Smith, the classical economist and Devadas (2015) claimed that HC first illustrated in year 1776 as the ‘educated man’. Thereafter in year 1961, Theodore Schultz, an eminent American Agricultural Economist became a Nobel Prize winner re-coined and established the term Human Capital (Devadas, 2015). According to Becker
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(1996) cited in Pasban and Nojedeh (2016) stated that HC was first rooted in the Economic Literature. HC term theorized and popularized by Garry Becker an economist from the University of Chicago theorized HC as the “stock of knowledge”, “skills” and “abilities” embedded in an individual that results from natural endowment and subsequent investment in education, training and experience (Kulvisaechana, 2005). Costs are paid- back; Returns are collected; theorized by Becker with regard to the relationship between the education and economic development pointing out the high income earnings on return on external education and high returns on internal education (Becker, 1964 cited in Devadas, 2015). The theory on HC mostly associated towards enhancing the productivity by investing and developing HC (Becker, 1964, Flammholts and Lacey, 1981, Marginson, 1989, Schultz, 1961 cited in Perera, 2017). Despite of trendy approaches with regard to HC, it was found that HC literature still remains fragmented, differing in the conceptualization of Human Capital (Unger et al., 2011 cited in Afiouni, 2013). Finally it is clear that “Human Capital theory has undergone a rapid development”(Alnachef and Alhajjar, 2017).

3. Human Capital Theories

Human Capital is recognized as knowledge and skills of the entire workforce of the organization (Hitt, Ireland, et al., 2010 cited in Mahdi and Almsafir 2014). Further Schultz (1961) predominantly identified that there is a relationship of education and HC and pointed out the need of synthesizing people’s knowledge and skills to form HC (Devadas, 2015). Kucharcikova (2013) highlighted that in year 1981 Schultz defined again that HC can be recognized as “innate and acquired skills may invest on those to expand for the purpose of building human capital”. Jackson and Schuler (1995) tendered their view point as people create economic value with their experience, skills and knowledge. According to Hossain & Roy (2016) highlighted that HC as the employees characteristics which are “rare”, “inimitable”, “valuable” and “non-substitutable” lead for competitive advantage whereas Souleh (2014) argues that HC as the key factors for the success of a company. Further, the underlining factor of HC is “not transferable” (Becker, 1964; 1976 cited in Dae-bong, 2009).

It was observed that many research studies carried out by scholars has tended focus mostly on Human Capital Development. Hudson (1993) cited in Bontis and Fitz-enz (2002) of the view that HC is embedded in individuals with four factors, “education”, “genetic inheritance”; “experience”; and “attitudes” in terms of “life” and “business interventions”. Scholars debated in the past that HC impact positively on performance whereas Samad (2013) confirmed that the human capital approaches are crucial to overcome the globalised intense competition and to create high business performance.

Pasban and Nojedeh (2016) stated that the formation of HC entails with an underlining factor to improve the assets of an organization for sustainability through the employees’ efficiency. HC was defined colourfully by Jac Fitz-enj (2000) cited in
Dash et al., (2013) as “an intellectual asset that goes home every night with the employees”. HC is a quite complex phenomena, the main characteristics of HC is recognize as the “non-tradable” and “no market exists” (Hamid and Zaman, 2000 referred by Natoli, 2008 cited in Devadas, 2015). A definition presented by Bontis et al (1999) cited in Dash (2012) was HC is representing the “human factor” with their “expertise”, “combined intelligence” and the “skills” that are embedded with the employees. Wickramasinghe and Fonseka, (2012) cited in Perera (2017) stated that scholars argued that HC is a pivotal factor to any sector.

4. Two Principal Ideas on Human Capital

The literature drew attention to two principal ideas on HC such as, (a) people are recognized as assets and their value to be enhanced through investment; (b) the Human Capital approaches such as designing, implementing and assessing how well employees help the organization to achieve its strategic results through its mission (Dash, 2012). The blueprint of two key ideas defined by Youndt et al., (2004) cited in Haslinda (2009) was similar; first, “people consider as assets, through investment, their value be enhanced”; second “an organization’s HC policies and practices should be aligned to support shared vision, mission of the organization”.

The study conducted by Kucharcikova et al., (2014) simply explained that there are two ideas such as HC should focus on “upgrading existing skills” and “extracting the best out of him”. Similarly in more recent literature Dae-Bong (2009) cited in Amodu et. al., (2017) also defined that HC has two major factors on theory such as, the first identification is as the investment on physical capital and the second identification is the labour force is generating the economic added-value. Dash (2012), stating that the “idea” on Human Capital encompasses with two central principals such as (a) the People are considered as assets and their value could be enhanced through proper investment and (b) the Human Capital approaches should consider designing, implementing as well as assessed how the organizations achieve their strategic results whilst pursuing its mission. The recognition of cognitive ability of individuals is considered as the “Context-Generic Human Capital as such ability is relatively stable” (Jensen, 1998; Kanfer, 1990; Ployhart & Moliterno, 2011 cited in Sujchaphong 2013). Also it was highlighted that the “Knowledge, Skills, and Experience” can be considered either “Context-Generic or Context-Specific” (Ployhart & Moliterno, 2011 cited in Sujchaphong 2013). Furthermore, Au, Altman and Roussel (2008) cited in Mahdi and Almsafir (2014) highlighted that HC within an organization represented by the “knowledge mastered by individuals” and according to Gibbons and Waldman (2004); Hatch and Dyer (2004); cited in Mahdi and Almsafir (2014) highlights that HC can be seen as “generic (general) human capital”, “organization-specific human capital” and “task-specific human capital”. The HC drivers tested by Bassi & McMurrer (2007), Jamal (2008) and Odhong et al., (2014) were Leadership Practice, Employee Engagement, Knowledge Accessibility and Learning Capacity and Workforce Optimization. In addition, Deloitte
(2016) confirmed that new Organizational Design is one of the key trend priorities in HC for business success.

4.1 Context Generic Human Capital

The uniqueness in employee attributes lead to superior performance Barney (1986) whereas Jackson and Schuler (1995) concluded that the employees’ knowledge, attributes, skills and expertise immensely be contributory to create economic value. According to Pasban and Nojedeh (2016) the “human capital” is termed by as a key element of assets in an organization, can be improved for sustainable competitive advantage as well as to increases the employees’ efficiency.

Organizations primarily to invest on Human Capital through the Training and Development approaches (Bontis and Fitz-enz, 2002) and it was found that the business success is recognized as how effectively HC strategy translates to make the firm as a knowledge based company (Nicol-Keita, 2013). The study conducted by Amodu et al., (2017) revealed in their findings that the company should develop the HC to enhance the attitudes of the employees’ towards work. HC of an organization usually align the policies to develop people to achieve both the individual and organizational goals (Wan, 2007 cited in Wilson and Mampill, 2014). Investment on Human Capital improves the quality and productivity of the work force (Alnachef and Alhajjar, 2017).

4.1.1 Leadership Practices

The Leadership development could be considered as a strategic priority in contemporary organizations (McCauley, Kanaga & Lafferty, 2010 cited in Subramony et al., 2018). Ulrich and Lake (1991) pointed out that the leadership create a vision and articulate the approaches within and outside of the organization; leadership join hands with employees, walk the journey together until they achieve the set goals. Ulrich and Lake (1991) further underlines and argued that Leadership realm not only from top managers but every employee should be empowered within their own domain of work. Petric et al., (1999) highlighted that the leadership practices strategize for superior skills that create value; those others unable to imitate.

The leadership development indeed helps the individual managers to become better leaders (Subramony et al., 2018). There had been many questions raised about the Leadership Practices where Goleman (2000) elaborated that the leaders set the strategy, create the mission, build the strong cultures and motivate employees for high results. Subramony et al., (2018) stated that the leadership is to be active together and to focus for collective effort of practices for specific outcomes. Managers together with the employees build bridges between action plans and business context to gain the competitive advantage (Ulrich and Lake, 1991). Despite the fact that the Leadership influence organization-level, the HC is regarded as a powerful element in an organization (Subramony et al., 2018). Organizations develop the transformational leadership behaviors enforcing to achieve the competitive advantage (Birasnav et al., 2011). Both stocks of HC and financial capital can be amendable with the influence of
leaders (Subramony et al., 2018). Babatunde and Emem (2015) defined the Leadership as an “influential and managerial activity” that direct employees to accomplish goals and it was confirmed that performing organizations do operate with empowered networks (Deloitte, 2017). Leadership development considered as a top strategic priority in contemporary organizations (McCauley, Kanaga & Lafferty, 2010 cited in Subramony et al., 2018). Strategic Leadership develops human capital and exploit the core competencies (Hitt et al., 1995 cited in Mahdi and Almsafir 2014). Birasnav et al., 2011 argued that future leaders display better performance and accept responsibilities.

4.1.2 Employee Engagement
Organizations focus on multi-faceted strategies and highlighted the need of strengthening the engagement and commitment of employees to create the better performance (Nicol-Keita, 2013). According to Hendricks (2002) cited in Pasban and Nojedeh (2016) defined HC as the volume of creativity, technical skills, knowledge and experience of an organization thus the workforce is considered as “productive assets” and not as costly assets. Leaders harness the skills and the employees become the key resource to contribute for the sustainable competitive advantage (Srivastava et al., 2013). Lombardi and Laurano (2013) pointed out that the Employee Engagement is a not only a HR initiative but a business initiative; moreover Mone et al., (2011) cited in Mehrzi and Singh (2016) showed how employee engagement levels positively enhance the productivity and performance. The engagement is not all that easy to create and measure; it could create at individual levels, to foster the high engagement and Deloitte (2016) emphasized that the Managers should engage their teams; align with primary responsibilities. Armstrong (2011) stated that there is a close link between high level of engagement and positive discretionary behaviour. Purcell et al., (2003) explained that the discretionary behavior is a choice and demonstrates in their job, effort, innovation and productive behavior that they display to exert high performance where Sri Lankan banks are concern of enhancing productivity and efficiency (Perera, 2017). The Conference Board (2006) declared that high productivity and performance achieved by the engaged employees. The Employee Engagement advocated by organizations become productive, create profits (Febriansyah, 2010). Perera (2017) showed that diversity enhances productivity. Kaplan and Norton (1994) cited in Marimuthu et al., (2009) stated that the employee productivity can be improved with skill development.

4.1.3 Knowledge Accessibility
The latest economic order shifted dramatically and leaders are focus on approaches how the businesses could create wealth for economic growth and Dash (2012) pointed out that it is the linkage with knowledge management and HC development strategies for competitive advantage. Jamal and Iqbal (2011) stated that at present prevailing effects in the knowledge economic era, development of HC is the recipe as the value is embedded in the heads of the knowledge worker. Hansen et al., (1999) cited in Armstrong (2011) suggested that the knowledge can be a critical ingredient for
competitive business strategies to create customer value that synchronize the economic values in an organization. Rasula et al., (2012) explained that organizations could achieve competitive edge by integrating the knowledge for business processes and also the factors such as trust, collaboration, team work and creativity among employees. Grant (1991) showed that individuals get aligned for routine job tasks, without much consciousness by utilizing their tacit knowledge. It was argued that employees gain the knowledge, skills and intelligence with the experience and with education (Luthans, 2005 cited in Ojeka et al, 2016). According to Alnachef and Alhajjar (2017), the organizational learning creates a supportive work environment that leads to knowledge sharing and application. In an organization employees possess individual tacit knowledge which is difficult to copy, the skills that are necessary to perform their functions (Nelson and Winter, 1982 cited in Bontis and Fitz-enz, 2002).

4.1.4 Organizational Design

Deloitte (2017) highlighted that the organizations are now focusing on the organizational redesign and actively focusing on developing new organizational models. Human Capital is significantly associated with flexible design, strategic vision, organizational culture, obtaining the employee potential (Lopez-Cabales et al., 2006 cited in Hossain and Roy 2016). In addition, Deloitte (2016) survey results further elaborated that companies are striving to be more agile and customer oriented structures to develop as new organizational designs with interconnected flexible teams where 92 percent of the executives are in the midst of reworking on Organizational Design as a top priority. Deloitte (2016) prescribed that new mode of “network of teams” with characteristics of high degree of empowerment; a rapid flow of information will be able to sweep the other businesses around the world. Hossain and Roy (2016) highlighted the need of right design in the Organizational Operating System to create HC centric organizations. Global business markets reshape the workplace, workforce, and the work itself (Deloitte, 2016) whereas Augier and Teece (2009) cited in Subramony et al., (2018) argued that skillful leaders do articulate business strategies and implement the design appropriately. The new structures enable the officers to move from “administrative positions” to “mission-oriented projects” (Deloitte, 2016). According to Srivastava et al, (2013) the Organizational Design is to be embedded with the Organizational Structure and the collaboration effects and Pathmaranjan (2004) pointed out that some of the Sri Lankan banks have initiated organizational re-designing organizational models to offer integrated services to their customers. Organizational re-design sets standards for corporate values which facilitate change of the organization (Srivastava et al., 2013).

In an investigation into organizational design, Teece (2010) found that the essence of a “business model” should be much more for business purposes. The organizations started to re-shape, re-design with HC dashboards to improve HC capabilities to create value for organizations (Chen, 1999) cited in (Han et al., 2008).
Deloitte (2016) stated that organizational design shifts from a structured hierarchy to a network of teams.

4.2 Context Specific Human Capital
Kucharcikova et al., (2014) argued that the “stock of skills”, “knowledge”, “expertise” are crucial to enhance productivity in an organization; it is another point of view recorded in literature that Human Capital Practices embedded in policies and procedures are correlated with financial returns and a leading indicator to increase the shareholder value (Febriansyah, 2010). HC Practices manage the human capabilities for significant performance (Wilson and Mampill, 2014). Human Capital Practices is the integrated effort to manage human capabilities for the higher levels of performance (Dash et. al., 2013). HC is considered as the “profit lever” in the “knowledge economy” (Bontis and Fitzenz, 2002), a bundle of Human Resource Practices provide HR professionals to make a shift from reactive task-oriented strategic role as a proactive strategic partner (Nicol-Keita, 2013). Many scholars argued that the Human Capital approaches are pivotal for success (Wickramasinghe and Fonseka, 2012 cited in Perera 2017). Adeola, (2016) emphasizes that due to competition in the global markets the need of skilled employees are indispensable for the organizations. The employee’s skills to be acquired align right behaviours that are needed for firm’s competitive strategy implementation (Huselid & Becker, 1995). HC refers to the knowledge, work competence, education and psychometric evaluations (Namasivayam & Denizci, 2006 cited in Pasban and Nojedeh, 2016). Alnachef and Alhajjar (2017) stated that the individuals enhance their competencies and skills in order to make the competitive edge for the organization. It was highlighted that “Knowledge, Skills, and the Experience” can be considered as either “context-generic or context-specific” (Ployhart and Moliterno, 2011 cited in Sujchaphong 2013).

5. Human Capital as a Mediator
Although many research studies have been carried out extensively on Human Capital, there is only limited research exists to prove the mediating effect of HC; however, according the study conducted by Katou (2008) highlighted that skills, attitudes and behaviours positively mediate between HRD and OP. Subramonya et. al., (2018) found that the HC mediates between Leadership Practices and Sales Growth. More profound literature defined by Alnachef and Alhajjar (2017) explains that HC mediates the relationship between the independent variables such as; Learning and Education, Experience and Expertise and Innovation and Creation and the dependent variable was the Organizational Performance. It was highlighted that during the few decades research had been conducted to ascertain the relationship between human capital and performance, whilst few research studies have used HC concept as a mediator variable (Becker, 1964; Jensen, 1988; Harris & McMahan, 2008; Hawkins & Dulewicz, 2007; Pil and Leana, 2009; Wright, Smart, McMahan, 1995; Sujchaphong, 2013 cited in Perera and
Weerakkody, 2018 whereas Devadas (2015) stated that HC mediated in creating wealth to a nation.


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