FROM HUMAN RESOURCE TO HUMAN CAPITAL

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“The tenure – something that the good don’t need and the bad don’t deserve.”

The Lure Of Money

There is a trade off of two financial desires:

- The desire of individuals for financial flexibility, that is, the ability to spend whenever and wherever we feel like it.

- The economic payoff to commitment, that is, the possibility of bigger returns for bearing the risks of sticking with long-term projects until they are finished.

In a primitive hunter-gatherer economy there is no way to avoid this tradeoff – if we want to be able to leave for the jungle on short notice, we settle for tools, for cash would not do much good in the jungle. The tools would be means for survival when we come face to face with a prey, or in a worse situation, with a predator. On the other hand, if we want ready cash for buying and selling in the open market, we keep gold coins in the pillowcase or under the mattress.

But in a more sophisticated economy of foraging in the super- and hypermarkets this dilemma can be finessed. We can pay using cash withdrawn from an ATM machine, or we often times do not even see the monetary transfer if we use plastic money, that is, a credit card. In this case, a financial institution, such as a bank, is normally involved. Financial institutions are largely in the business of loaning money for long-term, such as 30-year mortgages, yet they offer depositors who supply that money the right to withdraw it at any time.

What a financial intermediary, a bank or something more or less like a bank, does is pooling the money of a large number of people and put most of that money into long-term investments that are illiquid, that is, hard to turn quickly into cash. Only a fairly small reserve is held in cash and other liquid assets.
The reason this works is the law of averages: On any given day, deposits and withdrawals more or less balance out, and there is enough cash on hand to take care of any difference. We are free to withdraw whenever we want (note use of ‘want’, NOT ‘need’ because we are in a spend-spend consumerism economy); yet that money can be used to finance projects that require long-term commitment such as debt venture investments or the BioValley Initiative. This is the magic of how the complex economy works in simple terms, if we also throw in the depositor workers – the human resource that makes money by selling time and labor.

Magic, however, has its risks. Normally, financial intermediation is a wonderful thing; but now and then, undesirable phenomenon strikes. Suppose that for some reason – even a groundless rumor – many of a bank’s depositors begin to worry that their money is not safe. They rush to withdraw their money out. But there is not enough cash to satisfy all of them, and because the bank’s other assets are illiquid, it cannot sell them quickly to raise more cash, or can do so only at fire-sale prices. So the bank is driven into bankruptcy due to liquidity problems, and the slowest-moving depositors lose their money. Those who rush early to withdraw their money are proven right – the bank is not safe after all, even if the bank goes under because of an unfounded rumor. This self-fulfilling panic, also known as bank run, dots history and the losers in all cases are the depositor workers.²

For financial intermediation to be a sustainable business, individual workers like us must deposit money. If we are making more than enough to meet the basic needs for survival, we can put some away in the bank for rainy days or purchase pension funds; if we are still financially better off, we may even buy a large-screen HDTV just because our neighbor has one, or invest in riskier ventures or stocks just because everyone is stock tipping; and if we are really financially well off, we may have disposable incomes that we can indulge in some luxuries, such as owning a few sports cars when we can drive only one at any time.

Unless we are born with a silver spoon in the mouth, for us to be able to deposit money in the bank, compete with our neighbors by buying HDTVs, keep up with peer pressure by purchasing stocks or own sports cars so that we can park them on driveways for passers-by to envy, we must have means of income, such as working. In this case, we the individuals are workers – the human or labor resource, just as capital resource and natural resource are critical components of commerce.

Like other resources that produce goods and services, the demand for human labor resources is a derived demand in the sense that organization looking for labor does not value the labor resource itself, but rather the human resource’s ability to produce profitable products or services. We always give more to than we get from the organization we work for; if we got more than we gave, we would not be workers anymore.
Hyper Work Versus Smart Work

In a society where everyone around is looking prosperous and keeping up with the Joneses is a full time job, the only security is what we can produce that has market value today. We thus unnecessarily, perhaps knowingly, put ourselves in overdrive into hyper work, whether by choice because of our life-styles, or to make up for the money lost in business failures such as bank runs, or change of fortune.

We do not only overwork ourselves because we want to keep up with the Joneses, but also because we have to make money for the organization we are working for.

People are now the organization’s new resource and the organization’s potential competitive advantage. But resources, as defined traditionally, are things to be milked. Those lucky enough to have one of those proper jobs inside the organization find themselves working ever harder and longer, leaving little, if any, time for families or for anything else.

The passions for productivity and cost effectiveness have blinded us human beings as the users of tools. These passions have led us to seek more and more production capacity in each employee and fit more and more into each job description just like the computer design engineer tries to squeeze price performance out of the computer. As a result, we have lost a clear distinction between smart work, hard work and hyper work. We are willing to abandon smart work and institute hyper work under the illusion that it is harder work. We even contrive special titles to make such hyper work respectable.

While hard work may be productive, fragmentation of focus is the nature of hyper work. In hyper work, an employee goes faster and faster on more and more. The employee is made into a computer judged on the processing power. Although quantitatively hyper work may turn out more production, the quality declines. Suddenly the human being is no longer a human being. Instead of utilizing the machine to make work simpler, the employee is now another part of the machinery. Humans have become the tools of their tools.

The organization is correctly regarded as the instruments of wealth creation, whether the wealth is money, health, education or service of one type or another. But we now see more clearly that the individuals (employees) inside the organization (employer) have become its instrument, subordinated to the goals of the organization, exploited or dismissed (laid-off) as needed.

Smart organizations must learn to use human resources humanely and appropriately, more so than they must learn to use technological tools effectively and appropriately. The word “technology”, after all, is derived from the Greek word “techne”, which means skill. Ancient Greeks believed that the goal of humans was to free themselves from labor so that they could have more time to think.

Smart organizations thus let automation machines and informing machines (for example, the computer) do all the hyper work and return human beings to smart work whenever possible, and hard work whenever necessary. Automating concentrates on the machine by cutting out or reducing people;
informating uses smart machines to enhance smart people. Informating wins in the long run because the organization’s thinking and intellectual capacity increases with time.\textsuperscript{5}

**The Worth Of Time**

Until very recently, absent many modern distractions, entertainments and infotainment, most of us sold all our working time to the organization to do what they reasonably willed. We were content with our choices – mainly to do with how we spent the *money* they gave us, and the *time* they left us. Money and the things we might be able to buy with the money dominated our values. For most people, it was myrmidons living in a materialistic world. Myrmidon, meaning a subordinate who executes orders unquestioningly or unscrupulously, is derived from the Myrmidons, the legendary inhabitants of Thessaly in Greece, who were known for their fierce devotion to their king, Achilles who led them in the Trojan War.

This type of organizations composes mainly of physical assets owned and run by families, and helped by hire hands. Organization accountants put people down as costs in the profit and loss (P&L) statement; costs being something the organization tries to minimize in anyway it can so that the business will be as lucrative as possible.

Nowadays organizations are composed largely of people, helped by physical assets. Thus to own an organization is to ‘own’ more of people than to own physical assets. Owning people is wrong, so is buying and selling people. The concept of trading people has been out of date for quite some time now. People are also becoming more than mere ‘hire hands’ or ‘temporary role occupants’ of the organization building (a part of the physical asset). They increasingly represent a valuable part of ‘intellectual property’ called human asset or human capital. Slowly, the bidding ring for corporation mergers, buy-outs, takeovers or acquisitions is realizing that assets are not necessarily made of bricks, steel, wood or other metal but can be made of brains. This time around, people appear on the balance sheet as assets, not on the P&L as costs. The worth of ‘human capital’ is beginning to bite in the bidding ring where companies are valued way beyond the worth of their physical assets and accountants cannot account for the difference with ‘goodwill’ or ‘products in the pipeline’ or ‘patents pending’ or ‘brands’, all of which are also part of intellectual property. The difference is to be found in the guesstimate worth of the human brains.

As the human asset, we are now quickly discovering that when we can choose how to spend our time our way and not what the organization will, it may not always make sense to sell our time as expensively as we can or as much of it as we can. There are many other things, besides working, we can do with our time, even if it is only to sit, sip gourmet coffee and chat with friends in cyber cafes, or to spend quality time with our family members at the Petronas Twin Towers.
Many wise or ambitious ones among us will use the free time to increase their skills and diversify their range of talents. After all intelligence, information and knowledge are the pathway to wealth and power in this rapidly changing world. Time and talent will now become the commodities in high demand; they will be the property of the individual, not of the organization, thus changing the balance of power between the organization and the individual radically. Education at all ages and of all types will once again in this new balance of power become a prized and precious thing.

Resource Mobilization In Economic Development

This tip of balance of power between the organization and the individual does not arise from thin air. It is an ineluctable consequence of economic development and the ubiquitous information technology.

Economic development commences with the organization and ability to mobilize resources. For example, the 19th-century America had an abundance of natural resources but a shortage of workers. The prime task was to mobilize labor and labor was actively recruited from abroad, Africa and Asia included. With lots of labor and few natural resources in the second half of the 20th century, Asia mobilized capital. Government controls and incentives forced savings rates to levels never before existed. Singapore’s savings rate exceeded 50%; China, though relatively poor, saved 30%.6

In this first mobilization phase of economic development, rapid growth followed in the wake of huge inputs of plants and equipments; productivity growth, however, is minimal. Inputs are going up as rapidly as outputs and productivity growth will have to wait until after labor and capital resources have been fully mobilized.

The second phase of economic development involves copy-to-catch-up, copycat or dupli-cat development. In the 19th century the U.S. copied, refined and eventually improved on British textile mills, steel mills, and coalmines. Similarly, in the 20th century, Japan copied, refined and improved on American industries such as automobile and consumer electronics. The new China and Southeast Asian nations are now going through the same process. They are copying U.S. telecommunications and biotechnology industries. But there is a huge difference here. Because of rapid technology change, emerging nations can leapfrog the country they are duplicating. For example, because of the lobbying power of telephone companies in the U.S. and the rapid change in technology, Southeast Asia and China have leapfrogged the U.S. by skipping cable laying and gone straight into wireless technologies. The U.S., however, is still very entrenched in telephone cable communications because the huge monopolistic telephone companies are not going to give up without a fight. They have sunk in too much investment into laying cables.

During this second copying phase of economic development, human skills are central. The U.S. outdid the British because it was better educated; in the 1970s, Japan similarly outdid America with a better skilled workforce. Now China, India and certain Southeast Asian nations like Korea, Malaysia, Singapore
and Taiwan, with good schooling systems and returning scholars, are repeating what the U.S. and Japan did, in compressed time thanks to accelerating rate of technology change. In this second stage of economic development productivity growth begins to occur.

In the third stage of economic development, advancing knowledge is central to economic success. Big technological breakthroughs lead to big jumps in productivity. New products with undreamed of capabilities are invented and new processes for revolutionizing the production of old products emerge. Rapid change becomes a norm and productivity growth accelerates.

China and other Asian countries are paving their way to get to this stage: improvement in and building new infrastructure, removing bureaucracy and standardizing of processes and protocols. It took the U.S. almost one hundred years to move from the second stage of copying to the third stage of innovating and the Japanese about thirty after World War II to do the same. But with the accelerating rate of change, Asian countries are now on the verge of or already entering this stage of economic development. Indeed, China, Taiwan, Singapore and Malaysia are already embarking on new biotechnology and nanotechnology.

**Brain Drain And Brain Gain**

Copy and access occur not only across national borders, they also occur within a nation.

Logic would suggest that the development of better communication and transportation systems should be spreading economic activity out geographically, but in fact it is being concentrated as clusters on less and less of the total available land area of a nation. There are several plausible explanations. Economists like to look for economic forces such as close human proximity facilitates informal exchange. But most likely the answer lies in the social reality that humans are by nature herd animals and like living on top of each other.

The need for food historically caused humans to spread out. Nomadic hunter-gatherers and aborigines using primitive agricultural techniques such as slash-and-burn need a lot of space to survive. When that is eliminated, humans concentrate on top of each other because humans like to be on top of each other.

There is an added catalyst for such a behavior. Capturing free knowledge, not informal exchange, is one of the reasons that concentrations of high-tech companies coexist symbiotically in places like Silicon Valley in the U.S., Pudong (Shanghai) in China, or Cyberjaya in Malaysia. One learns faster what one’s neighbor knows if one is in fact a neighbor. Knowledge, like a liquid, eventually equalizes to its own level. But eventually is not instantly. In fast-moving fields, the advantages of being inside the relevant learning community are enormous. Companies often buy or build subsidiaries in Silicon Valley to ensure themselves a listening post. Other geographic locations have much lower operating costs, but the same information is not available on the grapevine.7
Increasingly the acquisition of knowledge is central for both catch-up and keep-ahead nations. Both smart and emerging nations understand that reality. People in smart nations make effective use of technologies. They have more leisure time because they work more strategically, more effectively, more efficiently, and more responsibly. It is no accident that smart nations are developed nations. People in developing and emerging nations envy the life styles of people in smart nations. So people in smart nations – smartizens – hire smart people, globally. Given the opportunity, smart people from developing and emerging nations migrate to developed nations in search of better options. They are hired perforce because smartizens are looking for smart people.

This flow of smart labor resource applies also from developing to emerging nations because of the lure of better living conditions. Emerging nations can also attract smart people from developed nations using tax incentives, the critical global business success factor of access to cheap labor, and other incentives. However, emerging nations’ best bet is to attract returning smart scholars by providing the best remunerative incentives, environments and facilities similar to those of developed nations.

Operating as a monopsonist (i.e., a monopolistic buyer) and dangling access to its huge domestic market as an enticement, China has a practice of demanding the sharing of technologies from companies such as Boeing that sell in its market. Similarly, countries send out delegates to visit foreign countries to absorb and learn. These business activities include trade delegates participating in networking events, site visits, conferences, conventions or workshops, and appointments of ambassador-at-large, attaché in developed nations.

Just like smart people migrate to smart and emerging nations, wherever the opportunities are, smart people can also move from one organization to another. Organizations are uncomfortably aware that people, unlike physical assets, are fluid assets which can walk out of the door. So there is every reason for the organization to show proper concern for the employees. Organizations will need to give more freedom and flexibility to individuals than they may be comfortable with if they are to retain their commitment and profit from their creativity, finding beneficial compromise between the organizational need for control and the individual desire for autonomy.

**The New Mobile Human Asset**

In 1992, *The New York Times* commented that “…the only real factory asset of Microsoft was the imagination of its workers”; Peter Drucker, in *Post Capitalist Society* (HarperCollins, New York, 1993), pointed out that the ‘means of production’, the traditional basis of capitalism, is now literally in the heads and hands of the workers.

In this information age, the real source of wealth is intelligence, information and knowledge. But intelligence, information and knowledge do not behave like any other sort of property. Government cannot hand any of them out by decree; we cannot even give it to someone unless that someone already has
some; and if we do give it to someone, we still keep it. This may seem odd, but intelligence, information or knowledge in short, tends to go where intelligence, information or knowledge already is.

This turns the fundamental tenet of capitalism on its head. Traditionally, those with the money (so-called financiers) own the means of production. They hire people to put the means to work, and in so doing, they own or can dispose of their property and their assets as they wish. They also, when very successful, create institutions where lives and livelihood depend on the development and exploitation of what they own. An excellent example is natural resource extraction or the banking institution.

In this new work order human resource is an asset. But no one can own someone else’s brains. We cannot, in a civilized society, prevent those someone from taking their brains elsewhere. The organization no longer controls assets as it used to. The assets own themselves.

Thus as the human asset, loyalty is now first to our own professional development, to our own career; second to the current project assignment and team members, and only third to the organization where the career or assignment is currently lodged. This is the order, and NOT the other way round like it used to be in yester years of tenured appointment or life-long career.

In other words, nowadays, the smart organization realizes that its smart people can only be managed by consent and not by command, that obedience and loyalty of its smart people cannot be demanded; it has, instead, to earn their loyalty through a collegiate culture and a shared understanding. Otherwise, there is no logical or economic reason why these human assets should not go to a better hole if they can find one. We should perhaps beware of those who swear undying loyalty; it may be that they have no other holes to go to. The notion of tenure is now strained – it is something that the good don’t need and the bad don’t deserve.

Human assets, therefore, present the organization with a challenging dilemma: If people are the organization’s ultimate competitive advantage, the organization must invest in them, develop them, allow their talents to blossom, and provide that environment (physical assets) conducive to creativity. The more the organization does that, the more it thereby enriches the passports of its assets and increases their potential mobility.

**Earning The Human Asset Loyalty**

Professor Robert Katz described in the *Harvard Business Review* (Sept/Oct, 1974) the skills needed by an effective administrator. These skills are technical skills, human skills and conceptual skills. Technical skills can be taught very readily by those who know them to those who do not. These are the stuffs of books, exams and apprenticeships. Human skills are more difficult because they cannot be taught, but must be learnt by experience and helped by advice and reflection. These are the stuffs of something that we call mentoring.
It is no good doing things right using technical and human skills if they are not the right things in the first place. This is where conceptual skills come to the aid. Conceptual skills are the toughest of all and the hardest to impart to someone else. But they are the most necessary because they are the skills that can discern the way, define the problems which technical skills can solve, and glimpse the opportunity and identify unsuspected niches. Conceptual skills are a necessary ingredient to be a leader, because they comprise the wit to see what needs to be done and the ability to articulate it in a way to get those who possess human and technical skills excited.  

Educating the human asset to have better technical, human and conceptual skills is one way to earn their loyalty. Providing flexitime (flexible work time) is another good way to retain the best.

More and more people are selling bits, pieces or chunks of their time to organizations or clients as part-timers, independents or consultants, however they call the principal-agent relationship. Apparently they like it that way because of the flexibility in the arrangement.

In the book *About Time* (River Oram, 1993), Patricia Hewitt, the British Secretary of State for Trade and Industry, sets out all the numbers and provides a long list of all the new ways of chunking time or arranging work schedules in organizations. Instead of the traditional 40-hour 5-day week (Monday to Friday, say), there is the pressure for a 35-hour week. That can mean an hour off each working day, or Friday afternoons off. There is also flexitime. This includes part-time working for new parents and part-time before retirement, weekend jobs, job-sharing, term-time jobs, annual hours contracts, zero-hour contracts (i.e., available to work as and when required), career breaks, sabbaticals, time-banking (accumulating holiday entitlements over several years), and individual hour contracts where individuals and their bosses agree on a work schedule for each month or week. The list is not exhaustive. Conceivably there are more individual choice and more organizational flexibility.

Men and women also have critically different life and work cycles. Given that half of our graduates and best people are now women, if the organization chunks core jobs so indiscriminately it may be depriving itself of many of the best and most talented people. The organization needs to make those core jobs more time-flexible by allowing people to spend part of the day or the week working from home, or by making it easier to move from core jobs to portfolios and back again. Portfolios – the idea that one’s work is a portfolio or collection of projects, clients, products or services, whose mix varies over time – are becoming more and more popular as a career option as more and more people work outside the organization by choice or force of circumstances.

This way people would be able to spend more quality time with family members, or avoid the frustration of driving to and from office during heavy traffic hours and thus becoming more productive… In other words, the organization should concentrate on results and not worry too much about where or when the work is done as long as it is done on time and up to standard.
So work is now something you do wherever or whenever is convenient for you, NOT somewhere (an office, a factory or a foundry) you go to for a fixed number of hours each day like it used to be. And human resource has become human asset and now human capital in its own right.

References

1. This article is extracted from various parts of a book, Hwa A. Lim, *CHANGE: in business, corporate governance, education, scandals, technology, and warfare*, (EN Publishing Inc., Santa Clara, 2003). For enquiry, contact info@enpublishing.com
3. Performance is a major factor in determining the total productivity of a system and is largely determined by a combination of factors: availability, throughput and response times. Price performance is the performance per unit price.
4. This is ascribed to Henry David Thoreau (1817-1862).

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About The Author

Hwa A. Lim, aka Hal.
**Dr. Hwa A. Lim** obtained his Ph.D. (science), M.A. (science), and MBA (strategy and business laws) from United States, his B.Sc. (Honours) and ARCS from Imperial College of Sc. Tech. & Medicine, the University of London, United Kingdom.

An articulate and well sought-after speaker at international meetings, Dr. Lim is a Kingstone Best-Seller author, author of fourteen titles in English, and a regular contributor to *Symbiosis*.

Dr. Lim has functioned in the capacity of United Nations Bioinformatics Expert, Review Panel for National Cancer Institute (USA) and National Science Foundation (USA); consulted for Prudential, Eli-Lilly and Companies, Monsanto and Company, McKinsey, VAXA; and on different occasions for governments of different countries. He was recently appointed a member of Expert Panel for BioValley Initiative. He has the distinction of being a key member of two separate teams that took two different companies IPO in the U.S.
Human capital is a measure of the knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being. The well-being of nations: the role of human and social capital, OECD (PDF, 1.1MB). At a whole economy level, we can also consider the contribution of human capital to economic output. Growth in an economy can be driven by increases or improvements in either: labour or our workforce. Human resources (HR)-related issues are central to any discussion about a firm’s ability to learn, innovate and change (Wright et al., 2001). HC reflects individuals’ knowledge, skills and abilities (Yang and Lin, 2009); however, it is larger than the sum of this individual knowledge (Scaringella and Malaeb, 2014). 4. Human capital and organizational learning. While many other factors may affect firms’ ability to learn, HC has been identified as a crucial foundation for organizational learning (Kelly et al., 2011). 5. Mediation effect of human capital on the relationship between leadership and learning. The stock of human capital is defined as a concept analogous to "machines" in the case of tangible capital. There is a market in which the services of human capital are traded, and a rental, ao, is determined for the services of a unit of human capital, K, per unit of time. The sum of the services offered in the market by various individuals is an input into the production of other goods and services. It may well have a diminishing marginal productivity, which will cause a downward-sloping aggregate demand curve for the services of human capital. It may be smaller than earning capacity if the individual engages in production of human capital; other uses for time are excluded by assumption. The difference. 354 YORAM BEN-PORATH. Companies with well-established human capital governance frameworks are considered better investments and capable of creating more long-term value; The COVID-19 crisis has brought a renewed focus on human capital and employees, from its impact on pay programmes to employee well-being; Investing in and prioritizing these six areas relating to human capital can help organizations mitigate the risks and negative effects of COVID-19. Expanding the definition of critical talent will help mitigate future disruptions caused by human capital. These efforts help future-proof organizations, as a robust talent pipeline across all organizational levels will be ready to react to changing business conditions. Culture: values and purpose move to the forefront.