

# Intellectual capital: human capital

Business



Intellectual capital can be defined as the difference between the market value of a firm and the book value. Intellectual capital is further subdivided into three elements, human capital, social capital and organizational (structural) capital which is defined as that part which is “left behind when the staff has gone home” (Baron & Armstrong, 2007). Human capital is skills, knowledge and abilities that one gains from training and experience. It is the added value employees add to the firm which cannot be owned but can only be rented. Human capital is critical to a firm as its quality will have a direct effect on other intellectual capital assets to an improved financial performance.

Firms should try to manage and develop human capital to maximize on revenue per employee. The skills and knowledge are individual based but success of human capital can only be achieved if it is integrated with the social capital to produce the firms owned knowledge which is the organizational capital. It therefore becomes important that human capital is managed properly by attracting and retaining a heterogeneous human capital. Training, development of talent and correct integration should be encouraged. An individual expert's absence or even an exit should not affect the performance of the firm, thus development should be enhanced for the entire workforce.

Human capital is the source of innovation and creativity and therefore developing the entire human capital will not only be profitable but will add intellectual value to the firm. Converting human capital into intellectual capital gives a firm a sustainable advantage over the competitors. Proper human capital management should ensure that by human capital leaving the

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office in the evening, this should not affect the performance of the elements of intellectual capital. Poor management will lead to poor performance of the other elements of intellectual capital, the social and organizational capital. A firm with poor management in human capital will lead to other elements being affected when this capital leaves the office in the evening.