Section F

Valuing human capital in Sri Lanka: Prospects and challenges

Susima Samudrika Weligamage

Department of Finance, University of Kelaniya, Kelaniya

Introduction

Human capital is defined in the Oxford English Dictionary as "the skills the labor force possessed and is regarded as resource or assets". Random House Dictionary defines human capital as "the collective skills, knowledge, or other intangible assets of individuals that can be used to create economic value for the individuals, their employers, or their community". Human capital is also described as human resources (Brummett *et al.*, 1968; Hekmian and Jones, 1967), human assets (Likert, 1967), cultural capital (Thompson, 1998), and worth of employees (Roslender and Dyson, 1992). At present, Sri Lanka is experiencing and moving towards high economic growth. The government and all employers need to re-think on recognizing and providing appropriate value for the human capital in this country. In this oration, I provide a concise review of the methods /indicators used in valuing a nations' and organization's human capital. I will begin with the introduction and background of human capital valuation. I will then present an overview of the value of human capital of the Sri Lankan Nation, and compare it with selected countries. Finally, an overview of models used in valuing and reporting organizational human capital in other countries and Sri Lankan evidence will be provided.

Human capital valuation

The earliest known attempt to value human population dates back to 1681 when Sir William Petty estimated the monetary value of the population of England. He considered labor as the father of wealth and stressed the need to include value of labor in estimating total national wealth (cited in Blaug and Lekhi, 2009). Alfred Marshall (1890) noted that the presence of more educated workers within a firm increased productivity and they also interacted within the workforce to create learning opportunities for others. The credit for recognizing the value of human resources as an asset goes to Paton (1962), and he commented, "in a business a well-organized and loyal personnel may be a more important asset than a stock of merchandise."(cited in Blaug and Lekhi, 2009).

Human capital is a multi-dimensional concept. It can mean different things to different stakeholders. For employer sand to the business world in general, human capital is the economic value of an employee's set of skills useful to an organization. At individual level it may include tacit knowledge acquired informally through experience, non-cognitive skills-such as inter-personal skills and the physical, emotional and mental health of individuals (The human capital Report, 2015). To a policymaker or at country level, human capital (Nation's Human Capital) is the collection of skills and capacities of the population to drive economic growth.

In an organizational context human capital is the most valuable capital compared with other resources such as physical, financial and informational assets. Peter Drucker (1999) said, "*The most valuable assets of a 20th-century company were its production equipment. The most valuable asset of a 21st-century institution, whether business or non-business, will be its workers' knowledge and their productivity*". The recognition that employees are valuable assets will mean that different assumptions will have to be made