Chapter 19

The Measurement of Human Capital in Family Firms

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ABSTRACT

Intangibles are the key elements underpinning the competitiveness of enterprises. Among them a decisive role is certainly represented by the skills, knowledge, skills and experience possessed by members within organizations, as fundamental drivers thanks to which delineate identity and strategic objectives. Intangible assets became the determinants and foremost sources of company success (Drucker, 1993). The literature on human capital proposed that firms require to recruit, nurture and retain talents so that the knowledge base can be extended, which has the capacity to improve an organization’s overall productivity (Boxall, 2003; Lin & Wang, 2005; Lim et al., 2010; Mehralian et al., 2013). The management of human capital as an important component of intangible assets often creates and sustains an organization’s wealth and competitive advantage (Lim et al., 2010). The main aim of this paper is to define a list of indicators that can be to measure human capital intangibles identified in family firms.

1. INTRODUCTION

In the current knowledge-based economy, successful companies’ most important assets are intangible (e.g., Edvinsson and Malone, 1997; Lev & Daum, 2004; Stewart, 1997). The competitive dynamics between companies also depends on the availability and the use of special skills and distinctive capabilities. It is in this perspective that intangible acquired a role and act as a key driver of business value. Among intangible a decisive role is played by human resources, which can specifically be considered as a valuable resource and a key factor to create and sustain an organization’s wealth and competitive

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advantage (Drucker, 1993; Huselid, 1995; Pfeffer, 1994; Prahalad and Hamel, 1990; Wright et al., 2001). In fact, the quality, skills, knowledge and learning ability of human capital are a real source of competitive advantage for companies operating in all sectors.

The resource-based view believes that human capital provides significant competitive advantage to a firm. The vast literature on human capital propose that firms require to recruit, nurture and retain talents so that the knowledge base can be extended, which has the capacity to improve an organization’s overall productivity (Boxall, 2003; Lin and Wang, 2005; Lim et al., 2010). This view is based on awareness that knowledge, skills, and expertise are existed in individuals, who are finally responsible for the creation and utilization of knowledge for learning and improvements (Lewis et al., 2004). It is expanding the belief that proper management of human capital can help to determine the success of your business or, indeed, may be a key element to consider for the formulation of business strategies.

Human capital is composed of a mixture of employees’ occupational or general knowledge accumulation, the leadership abilities, risk-taking and problem-solving capabilities. It is really difficult, even impossible to define the human capital in a definite framework, also makes it difficult to measure the human capital. Human capital is often incorrectly called and evaluated only vaguely. It collides with the difficulty of defining clearly the actual contribution that human capital is able to make to the success of the company, as is still evident failure definition of an adequate system of reporting. The human capital in a company enhances the operational activity of tangible assets (tools and equipment) and activates intangible assets (Fitz-enz, 2001). It is true that successful companies make investments in their employees in order to increase their visions, capabilities and experiences for the global working environment (Ulrich, 1997).

However, to date, companies only disclose limited information on this resource. Consequently, two major problems might arise: On the one hand, external parties cannot clearly comprehend a company’s value-adding potential. On the other hand, internal management cannot control the organizational human capital with regard to the company’s strategic objectives. There are many theoretical and empirical national and international studies on intellectual capital and, in particular, on human capital, but mostly focus on definition, classification and measurement as well as the representation of the intangible in the financial statements of companies. Few, however, analyze the relationship of this resource within the family businesses (Burgman et al., 2005; Pike et al., 2005; Roos et al., 2005; Sudarsanam et al., 2006). Much of the existing literature on intellectual capital focuses on large, publicly listed and professionally managed firms, but little is known about the identification and measurement of human capital in family firms.

In order to capture the uniqueness of family firms, family-business scholars, using primarily a resource-based view, have introduced concepts such as ‘familiness’ (Habbershon and Williams, 1999), ‘family capital’ (Hoffman, Hoelscher and Sorenson, 2006), the ‘family effect’ (Dyer, 2006) and ‘family social capital’ (Arrègle, Hitt, Sirmon and Very, 2007). The resource-based view focuses on the way in which competitive advantage is achieved and sustained over time (Penrose, 1959; Prahalad and Hamel, 1990; Wernerfeldt, 1984) and examines idiosyncratic firm resources that contribute to sustaining the competitive advantage (Barney, 1991).

Hofstede (1980) and Peters and Waterman (1982) introduced the intangible resource organizational culture as a possible source of competitive advantage. When, for example, there is a culture of trust within the firm, employees might be strongly motivated to do a better job in order to maintain this trust (Davis, Schoorman and Donaldson, 1997). According to several scholars (e.g., Denison et al., 2004; Zahra et al., 2004), the family business culture is distinct and difficult to imitate. The organizational culture of a