

# The Importance of Human Capital

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**Preface:** It is my honor and pleasure to be invited to contribute a few thoughts in memory of our colleague and friend Prof. Dr. Ioannis Paraschakis. The choice of the topic at hand, human capital, is heavily influenced by my professional experience and recent literature I have come across. In my quest to figure out why some things in business, life and politics work and others do not, I believe the notion of human capital has given me a satisfactory draft answer. As a disclaimer, I am by far not an expert in these matters; I simply take a great deal of interest. Therefore, I would like to plead for understanding if, in my attempt to lay out my thoughts, certain things lack the rigor and clarity of scientific research or seem slightly vague. Obviously, I am open to constructive feedback.

The key message of this article is epitomized by the title of a book I recently read, which deeply influenced my thinking: **“It’s not the How or the What but the Who”** (Fernández-Aráoz, C. 2014).

First, I will share some of my stories to exemplify the importance of the “who” factor in all realms of our lives. Second, I will elaborate on the implications this thesis has on the individual, e.g., what should the individual person do, what actions should she take to set herself up for success? Third, I will discuss the implications on the collective/social level. For example, what companies and countries may do in an effort to bring forward the best of their people, of their human capital, and mobilize their latent forces of creativity. I will conclude with a call for action.

**Keywords:** business; leadership; psychology; human resources; political science; education.

## 1. What is Human Capital

According to Wikipedia, “Human capital is a collection of resources –all the knowledge, talents, skills, abilities, experience, intelligence, training, judgment, and wisdom possessed individually and collectively by individuals in a population. These resources are the total capacity of the people that represents a form of wealth which can be directed to accomplish the goals of the nation or state or a portion thereof”.

If a social system – be it a family, a city, a corporation or a country – does not have the required human capital to live up to the challenges of its time, it will eventually

wither away. It is far from the purposes of this article to expand on the conditions under which societies fail – the reader is referred to the literature, e.g., Tainter, J.A. (1988).

## **2. What Happens when Great People Come Together**

Plato in his monumental work *Politeia* clearly recognized the benefits derived from a governance system in which the most educated and intellectually competent men in the cities should be allowed to rule. The ideal leader would be a man of virtue and character, who would strive to learn the Truth and in doing so become selfless and integer. Prerequisite for that would be a rigorous education and an ever-lasting pursuit of self-improvement. That, which Plato described, is an ideal state. And the key feature of all that is ideal is that it does not exist in reality. Nonetheless, humans have often taken direction from such ideals and formed institutions of great achievements that endured the test of time. Such institutions typically start with a visionary leader who sets the “rules of the game” and a critical followership who subscribes to them. Let’s look at two such cases from my personal experience.

**ETH Zürich.** When I came to Zurich for an exchange semester, I was fortunate enough to be put in touch with my doctoral father Prof. Manfred Morari. I was deeply impressed by his unique combination of intellectual sharpness and refined communication skills that even the most celebrated corporate executives would envy. Later, when I came in contact with the entire research group at the Automatic Control Laboratory (IfA, [control.ee.ethz.ch](http://control.ee.ethz.ch)), I realized that the Human Capital in there was just as impressive. Smart, self-driven people wanting to make a difference and working together for collective greatness. The years have passed, and the people at the group have changed. However, the excellence in research and human capital remain constant. And this persistence in recruiting ambitious and driven PhD students is what made that place so special in the first place. Morari knew very well that the secret to success was to surround himself with brilliant people and give them freedom and resources to do their thing. Caveat: great people, great stuff.

**McKinsey.** After my doctoral studies, I joined one of the world’s leading management consultancies. There is a huge body of literature and press about McKinsey, its culture and legacy – here I will focus on one specific aspect of its culture, and the impact this has on everything the “Firm” does: meritocracy. The whole recruiting and professional development system is based on rigorous criteria of performance and – to the human extent possible – they are strictly adhered to by everyone. This leads to a group of exceptionally bright and motivated people (to the point of self-sacrifice), which in turn leads to phenomenal quality of work and, as a consequence thereof, creates and captures significant economic value.

The morale of the story is that McKinsey established a reputation in its field, just like IfA established a reputation in its own field, exactly because of its unrelenting focus on getting the right people on the bus. There are more examples of success when great individuals are given the right freedom and resources to work together towards a common goal. For example, a small creative design team comprising Pixar's best artists, Disney's executives and Steve Jobs himself was able to pull off the amazing animated movie "Toy Story". Likewise, a small team at the Aristotle University of Thessaloniki even with limited resources was able to distinguish itself by winning first place worldwide in the prestigious Microsoft Imagine Cup 2015 competition. Collaboration in the field of systems biology among great people from different scientific disciplines may lead to some of the most amazing breakthroughs in our battle against diseases. All these teams have one thing in common: outstanding human capital.

However, it seems that most of the times it is extremely difficult to attract great people and there are good reasons why this is so. In the next section, we will investigate those reasons and see why it is so important to acknowledge them and work cleverly to overcome them.

### **3. Why is it so Hard to Find Great People**

Let's approach this age-old question with some serious humor. According to Carlo M. Cipolla, author of "The Basic Laws of Human Stupidity", always and inevitably everyone underestimates the number of stupid individuals in circulation. According to him, a stupid person is a person who causes losses to another person or to a group of persons while himself deriving no gain and even possibly incurring losses. Many more have formalized this body of knowledge. Notable among them is Peter's Principle, according to which, in a hierarchy people rise to their level of incompetence.

In a similar light, John Stuart Mill (1859) said "[...] the general tendency of things throughout the world is to render mediocrity the ascendant power among mankind. In ancient history, in the middle ages, and in a diminishing degree through the long transition from feudality to the present time, the individual was a power in himself; and if he had either great talents or a high social position, he was a considerable power. At present individuals are lost in the crowd. In politics it is almost a triviality to say that public opinion now rules the world. The only power deserving the name is that of masses, and of governments while they make themselves the organ of the tendencies and instincts of masses".

In this respect, even evolution and life itself could be considered from a different angle; "survival of the fittest" is not progression towards greatness; it merely means survival of the sufficiently non-terrible. Conclusively, we may infer that a reason it is so hard to find great people is because there are not so many around.

The above pieces of borrowed wisdom serve to hint that getting good people together is a very hard task. As if the above were not enough, making right people decisions and surrounding oneself with the best is brutally hard for many more reasons as well. Firstly, the way our brain works stands in the way. In a sense, our brains are hard-wired for subconscious emotional and cognitive biases. At the very basic level, this means we like people similar to us, irrespective of whether certain criteria are met or not (e.g., whether they are fit for a job). We also place too much emphasis on the information readily available to us and we tend to think “whatever shines is gold”. These, and more, emotional and cognitive biases work against our very best judgement.

So, what should we do as individuals and as society to overcome these natural obstacles?

#### **4. Implications for the Individual**

There is no short answer. However, all the ideas could be distilled into one word: learning. Through learning and constant striving for understanding we can overcome many of our pre-dispositions and biases that makes us ineffective when it comes to people decisions (hiring, promotions, dismissals, etc.)

Good news is that the human brain is a learning machine. All those who had the privilege of raising children have a first-hand account of that. We have learned to walk despite falling down time and again. We have learned our mother language with barely 1, 2 or 3 years of age – some kids actually speak more than one language by that age.

An interesting thing happens though as we grow up. Society and specifically the school system steal from us the joy of learning and the perseverance that comes with it. As a friend of mine very grimly put it once after a couple of nice cigars: “You die at 25 – they just bury you later”. In a nutshell, the reason such a step-back happens in most children, is that they feel unlovingly judged from the (school) environment and constantly assessed on whether they reach the bar or not (do I look pretty? Did I get an A? etc.) The school, instead of setting the bar high to give children an image to live up to and at the same time help them reach it, it confines itself to grade issuance, which is backward-looking (assess past performance not taking into account future potential) and upon which one cannot act.

In her beautiful book (‘Mindset’), Prof. Carol Dweck makes a case of the growth vs. the fixed mindset. According to her, “in a growth mindset people believe that their most basic abilities can be developed through dedication and hard work—brains and talent are just the starting point. This view creates a love of learning and a resilience that is essential for great accomplishment. Virtually all great people have had these qualities. In contrast, believing that your qualities are carved in

stone—the fixed mindset—creates an urgency to prove yourself over and over. If you have only a certain amount of intelligence, a certain personality, and a certain moral character, well then you'd better prove that you have a healthy dose of them" (excerpt from [mindsetonline.com](http://mindsetonline.com)).

Grades – feedback in general – is a very useful developmental tool (others being meditation, role-playing exercises, experiential learning, etc.) However, we do not use it correctly, if we stop the process when the kids receive the grades. The most important part is what follows: giving meaning to the grades. If they are high, the right message is “look, your hard work paid off” or “it seems that this exercise was not challenging enough for you”; not “look, you are so smart”. If the grades are low, the right, growth-mindset message is “you probably did not try enough. Next time, you will put more effort and you will improve”; not “look how dumb you are”. Definitely not “the teacher has been unfair to you, you are better than that!”

The wrong messages above may temporarily boost the kids' self-esteem, but they will irrevocably undermine their long-term success in life, as the context they create brings upon them a “fixed mindset” and stifles their further progress. Effort is what we should stress. Not fixed attributes. Unfortunately, our society idolizes the top-performers, and puts them on a pedestal for all the rest to worship. We love talking about “naturals”, such as Michael Jordan or Michael Jackson. We rarely know though of the tons of effort, dedication, sacrifices, blood and tears that all these heroes paid in their quest to reach the top. Brains and talent is the starting point. The finishing points depends hugely on the effort we choose – or choose not – to exert. So, next time someone admires some great figure, let us remember that she most likely reached that spot after *a lot* of effort. We – parents, educators, leaders, spouses, etc. – have to make everything within our powers to help our fellow humans (and ourselves) embrace the growth mindset.

The key message of this section is that as individuals, and despite the difficulties laid out above, it is our duty to always strive for developing ourselves and turning life's lessons into learning opportunities. A *belief* that we can grow, the growth mindset, goes a long way towards this direction.

## **5. Implications for Organizations**

If as individuals we have a duty to constantly strive for learning and development (which is not so different from the Christian tenet “in our image, in our likeness”), then what is the “duty” for our organizations – families, companies, countries, etc.?

As moral judgement can only be passed on individuals, not on organizations, the responsibility here falls predominantly on their leaders. It is of utmost importance that the leaders of all organizations create a culture and an environment that attracts, engages and retains great people. How do we achieve that?

First, set the right incentives that intrinsically motivate people. As Dan Pink stipulates (TED Talk 2009), those are three: purpose, autonomy and mastery. Purpose: a conviction *why* an individual should be part of the organization. The answer to this “why” should resonate personally and deeply and should point to something far greater than the individual. Autonomy: people value freedom and no-one wants to be directed what to do. Additionally, freedom unleashes creativity and then great things happen. Mastery: it is like “look ma, no hands” – but for adults. We get exhilaration when we master new skills – the brain exerts dopamine among others, which stimulates the brain’s pleasure center (what we call the “aha moment”).

However, incentives are not enough to attract and retain exceptional people. An organizational, collective culture has to be carefully groomed and then curated. There is a vast body of literature on the topic, for instance, Lueneburger, C (2014), which goes beyond our present scope.

So, if it is the duty of the leader(s) of organizations to create the right dynamic that attracts great people together, we better make sure the right leader(s) is chosen. If we talk about the CEO, the Board has this duty. If we talk about the Prime Minister, the voting body has this duty. If we talk about the parents of children, then it is upon God to make the right choice – and as we know, he is an excellent delegator...

An interesting paradox happens though. On the one hand, when it comes to corporations, people decisions usually receive serious attention. Interview rounds are conducted, excel files with ratings across tens of dimensions are filled out, medians are computed, etc. – and finally a decision is taken in a fact-based, data-driven way. The focus on data is our best ally to help us mitigate the effects of our human biases. On the other hand, when we elect public officers, rarely do we take such a rigorous approach. Most people vote on a whim, without considering society’s challenges or the situation facing the country, and without trying to figure out which candidate has those particular traits and key competencies desperately needed in *that given moment*. Can you imagine all the great things that would happen if we were to change that and take a fact-based approach in our public/civic lives?

An interesting case in point in Singapore. Back in 1965, Singapore and Jamaica started out about the same: recently emancipated British colonies, islands, similar size and population. Look where they are now. This is not a coincidence. Post-1965, Prime Minister Lee Kuan Yew gave a speech that made certain things clear. Among others, he said: “Singapore must get some of [the] best in each year’s crop of graduates into government” (Neo and Chen 2007). Over the following years, he helped create a public sector that matched and competed with the private one in terms of culture, incentives, development opportunities and compensation. The result is what M. Porter from Harvard calls a highly efficient civil service elite that can cope with anything the world throws at them. Picture *that!*

The key message of this section is that we should strive to get the right people at the right place, especially where it matters most: public administration and supra-national institutions.

## 6. Conclusion

As humans, we are finite. Our resources and capacities are limited. However, we can connect with each other. Forming emotional bonds at work and home, we can take on challenges of increasing complexity and stakes. Surrounding ourselves with the best – and striving to be one of them – is a noble calling in life. It has its price for sure – hard work and then again some more hard work. The prize though is worth the while: self-fulfillment. We become a better person and we taste a fuller life. This tenet holds true for all walks of life – from the shepherds on the Pindos mountains to the advertising executives on Maddison Avenue. We should not be stingy about hard work. As N. Kazantzakis puts it ““Love responsibility. Say: It is my duty, and mine alone, to save the earth. If it is not saved, then I alone am to blame. Love each man according to his contribution in the struggle. Do not seek friends; seek comrades-in-arms.”

This is all good and nice – however, just because we understand something with our reason, it does not mean we are setting off to go and do it. People change not because they *understand*, but because they *feel*. Understanding is a mere prerequisite, a necessary but not sufficient condition. The two most powerful feelings are fear and love. And fear is not sustainable (after prolonged exposure to fear, the brain gets immune to it). Therefore, love is what will save us all. Love is needed in the first place for us to love ourselves and adopt a growth mindset. Love is also the thrust that sparks belief – in value systems, institutions and their ideals – so that people expend their energy towards a noble cause. And love cannot be taught intellectually. It is only passed on – like the Olympic flame. Therefore, all the “should’s” and “must’s” of the preceding paragraphs could be epitomized in a simple statement “let love be upon us” – or, as is more commonly known – “God bless us”.

However, heaven help those who help themselves; in this spirit I would like to conclude with an excerpt from Steve Jobs – an eloquent call for action:

(<http://news.stanford.edu/2005/06/14/jobs-061505/>)

*“Remembering that I’ll be dead soon is the most important tool I’ve ever encountered to help me make the big choices in life. Because almost everything — all external expectations, all pride, all fear of embarrassment or failure — these things just fall away in the face of death, leaving only what is truly important. Remembering that you are going to die is the best way I know to avoid the trap of thinking you have something to lose. You are already na-*

*ked. There is no reason not to follow your heart. [...] Stay hungry. Stay foolish.”*

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