MANAGERIAL APPROACHES TO UNDERSTANDING THE HUMAN CAPITAL

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Abstract
Human capital is defined as the sum of congenital and acquired skills, knowledge, skill, talent, inventiveness that an individual uses to value creation in companies. Human capital is important intangible asset of enterprises. There are many approaches to understanding human capital. As human capital is perceived at the enterprise level, experts generally understand human capital through management perspective. In business practice begins to introduce the concept of human capital management and software companies offer applications in this field.

The aim of the article is to describe the results of research aimed at monitoring and comparing ideas and approaches to the management of human capital. Article also explains the difference between the understanding of human resource management and human capital management. Some software companies already offer software applications for human capital management, for this reason article describes and compares the importance of information systems of human capital management for companies.

Key words: human capital, human capital management, approaches.


1. Introduction
Every business or economy needs to produce output in its transformation process to use and combine the available inputs. In connection with the process of human capital, generated positive externalities, which are manifested as a higher level of population health, prevention of better health, lower crime, knowledge transfer between members of the household, the higher the level of knowledge of the population, a higher level of innovation and technological progress, increased competitiveness countries, businesses, etc. If the company or economy wants to prosper, is in their own interest to make the effort effective use of all available inputs. The same is true regarding the use of human capital as a production input.

In the last period at the corporate level looks at human capital over the asset, one of the components of the market value of the company and, together with the structural capital as part of the intellectual capital. Human nature activities undertaken in enterprises which seek to efficiency, competitiveness and prosperity is just personified in the definition and understanding of human capital. It was therefore only a matter of time that is in technical terminology introduced the concept of human capital management.

2. Human capital
There are several definitions and approaches to understanding human capital. Ideas about the importance of human capital and investment in human capital was directly or indirectly associated with importance of education as early as the beginnings of economic theory in the work of W. Petty and A. Smith. The topic of human capital was further elaborated by economists, representatives of the Chicago School in the 60s of the 20th century. „Attention Chicago economists also focused on building human capital theory, which was a major contribution to theoretical research in education. Their theory of human capital has become a ‘decoration’ Chicago School,“ (Volejníková, 2005). The leader of this school was Th. Schultz who in 1981 wrote: „Take into account the innate and acquired skills. Those
are important and may invest to expand, will form the human capital." The most important author and promoter of human capital theory is G. Becker. In his book Human Capital in 1964 developed a theoretical basis for deciding on investment in human capital (Becker, 1993). N. Bontis, N. C. Dragonetti, K. Jacobsen and G. Roos (1999) defined the human capital as the human factor in the organization; the combined intelligence, skills and expertise that gives the organization its distinctive character. The human elements of the organization are those that are capable of learning, changing, innovating and providing the creative thrust which if properly motivated can ensure the long-run survival of the organization. Davenport (1998) says that people possess innate abilities, behaviours and personal energy and these elements make up the human capital they bring to their work. M. Armstrong (2006) defines the human capital as knowledge and skills, which individuals create, maintain and use.

New theories of economic growth characterized the human capital as the sum of the individual congenital and acquired skills, knowledge, experiences of individuals. OECD defines human capital as knowledge, skills, abilities and other characteristics that are relevant for economic activity.

3. Managerial approach to understanding the human capital

Managerial approach considers human capital as intangible company asset, which form part of the intellectual capital and market value of the company. Views of the process of enterprise value creation are different according to different authors.

3.1. Resource approach

Koubek (2007) writes about business resources that are material (machinery, equipment, energy), financial, information and human. Human resources are of decisive importance in business management, economy, personnel work.


Figure 1: Resource approach to the human capital (own work according Koubek, J. 2007: Human Resources Management. Praha. Management Press)

Human capital represents the factor which gives a specific character to every organization. People form that element in the company which is able to learn, to innovate, to stimulate and make changes as well as to think creatively. This all is important for long-term successful operation of a company on the market (Vodák, 2010).

Human resources considered as holders of human capital. In this viewing angle, it often happens that people equate human capital and human potential. Human potential is defined as
the sum of available human and assumptions based on the production of goods and services (Vodák, Kucharčíková, 2011). In organizations are the most qualified subjects in managing and motivating all employees the right departments of human potential development (human resource management services, personal services), (Blašková, Hitka, 2011).

### 3.2. Creation of Market Value

Scandia is the first large company to have made a truly coherent effort at measuring knowledge assets. According to Scandia’s model, the hidden factors of human and structural capital comprise intellectual capital when added together (Edvinsson, Malone, 1997).

Intellectual capital is the sum of human and structural capital. There are experience, organizational technology, customer relationships and professional skills. Human capital is combined knowledge, skill, innovativeness and ability of the company’s individual employees to meet the task at hand. Human capital cannot be owned by the company. Structural capital is the hardware, software, databases, organizational structure, patents, trademarks, and everything else of organizational capability that supports those employees’ productivity – in other words, everything that gets left behind at the office when employees go home. Structural capital also provides customer capital, the relationships developed with key customers (Bontis, 2001). Organizational capital is the institutionalized knowledge possessed by an organization, which is stored in databases, manuals. It is often called structural capital (Edvinson, Malone, 1997) but the term „organizational capital” is preferred.


Organizations use different approaches for accumulating and utilizing their knowledge, and that these approaches present themselves as different aspects of intellectual capital, i.e., human, organizational, and social capital (Davenport, Prusak, 1998). The concept of
intellectual capital is based on the belief, that the main resources for building competitive advantage are intangible in nature. Edvinsson and Malone (1997) used for the first time the word, „Intellectual Capital“, instead of the accounting term „Intangible Assets“.

Sveiby (1997) identified intellectual capital as an intangible asset. He proposes a conceptual framework based on three families of intangible assets: external structure (brands, customer and supplier relations), internal structure (the organization management, legal structure, manual systems, attitudes, R&D, software) and individual competence (education, experience, skills). The concept of individual competence corresponds to the concept of human capital, which is given to this article and which is frequently used in theory. Sveiby (1998) proposes a method for the measurement of intangible assets (other authors refer to their intellectual capital) because intangible assets contribute to the increase in value. In traditional accounting, these assets are regarded as costs. He argues that both non-financial measures to measure intangible assets and financial measures to measure visible equity can be jointly used to provide a complete indication of financial success and shareholder value.

![Figure 3: The Intangible Assets Monitor Framework (Sveiby, K. E. 1998. Measuring Intangibles and Intellectual Capital – An Emerging First Standard)](image)

M. Armstrong (2006) explained the concept of human, intellectual, social and organizational capital. Individuals generate, retain and use knowledge and skill (human capital) and create intellectual capital. Their knowledge is enhanced by the interactions between them (social capital) and generates the institutionalized knowledge possessed by an organization (organizational capital).

### 3.3. Knowledge management

P. Drucker (1993) was the first who enriched the management that there is a new kind of capital, and called it to the knowledge capital. He predicted that, while money capital will subside, knowledge capital will promote. Knowledge or human capital is more and more considered the most valuable capital of the company. Human capital is not the same for everyone. Holder of knowledge capital can be creative and skilled worker or professional manager. The world is fast moving from a production-based economy to a knowledge-based one (Drucker, 1999).
Nonaka and Takeuchi (1995) said that knowledge management requires a commitment to „create new, task-related knowledge, disseminate it throughout the organization and embody it in products, services and systems”. At the organizational level, knowledge is generated from internal operations or from outside sources communicating with the corporate structure. Davenport and Prusak (1998) defined knowledge as sum of experience, values, contextual information, and expert insight that provides a framework for evaluating and incorporating new experiences and information. Knowledge management deals with the creation, acquisition, integration, distribution, and application of knowledge to improve the operation effectiveness and competitive advantage of an organization.

Linking human capital lies in the fact that human capital is viewed as a set of congenital and acquired knowledge but also skills, abilities, talent, inventiveness. Human capital is therefore part of the knowledge management.

4. Human capital management

Human capital is the most valuable commodity that each of us owns. It is necessary to treat this capital very carefully, because the human resources management involves not only some specifics, but especially risks (Sluková, Navrátilová, 2012).

Employees are the pillar of an organization. An organization can’t survive if there are no employees. Organization goes with the help of individuals who contribute in their own way in its success and productivity. Employees spend maximum part of their day in offices and strive hard to achieve the goals and objectives of the organization. Employees ought to be motivated from time to time so that they develop a sense of attachment towards their organization and also deliver their best. Human capital plays a crucial role in increasing the productivity and output of an organization.

Human capital is relatively young production factor. Because it is closely related to production factors of labour and has features in common with the labour, analysis and research work it is often not explicitly mentioned,” (Tokarčíková, 2010).

Every employee in his job gets some set of skills through his experience, exposure, trainings and so on which further increase his productivity eventually benefitting the organization. Knowledge and expertise which employees develop in due course of time to further increase the productivity of organizations refer to human capital. Every employee tries his level best to sharpen his skills during his stint with the organization. Human capital is defined as the stock of skills, knowledge, expertises of employees which further play an integral role in increasing the productivity of the organization.

Every organization invests part of its money and resources to train new employees. Employees in turn work hard, upgrade their existing knowledge and contribute in their own way to increase the productivity of their organization.

Human capital management refers to managing an organization’s employees for them to contribute significantly in the overall productivity of organization. Accordingly human capital management is defined as the process of acquiring, training, managing, retaining employees for them to contribute effectively in the processes of the organization. The essence is to focus on is upgrading the existing skills of an employee and extracting the best out of him. Management must ensure timely growth and development of every individual. The key objective of every organization should be to train its employees so that they become efficient resources later on. In human capital management, organizations treat their employees as important resources that play an instrumental role in productivity of the organization.
The development and management of individuals in line with their key responsibility areas not only make them an indispensable resource in the future but also ensure their hundred per cent contribution towards the organization.

The document Accounting for People Task Force Report of 2003, management of human capital identified as systematic analysis, measurement and assessment of how policy and practice in human resources create value. This is a confirmation of the idea that it is the abilities, skills and knowledge of people, from which the success of the enterprise.

By Nalbantian (2010) human capital management is the use of instruments for measurement of the properties of human capital and thus use the knowledge to effectively manage the organization. Kerns (2005) defines human capital management as the overall development of human potential, expressed as the value of the organization. According to Mayo (2009) the difference between human capital management and human resource management lies in the fact that human capital is seen as a wealth of business, while the source is seen as a cost.

Armstrong (2007) argues with different authors and their views on the place, role and justification for human capital management. According to him, „the concept of human capital management complements and reinforces the concept of human resource management. It does not replace it. As human capital management and human resource management can be seen as a vital ingredient in the process of managing people.

We can therefore conclude that the human capital management is an approach to employee staffing that perceives people as assets (human capital) whose current value can be measured and whose future value can be enhanced through investment.

An organization that realises human capital management helps its employees clearly to define and consistently communicate their expected performance. Managers are responsible for valuation, rewarding, and holding employees accountable for achieving specific business goals, creating innovation and supporting their continuous improvement.

Human capital management objective is that the organization was able to build and maintain effective employment relationships so that the knowledge contingent workers bring is shared with those working for the organization, while ensuring that the organization’s values and purpose are not diluted. Equally it is important that employment relationships are managed to ensure legal compliance and that knowledge key to the organization’s success is protected. To achieve this it is necessary:

a) Protect and preserve for future use knowledge of organization.
b) Identify individuals from inside who are key persons to the success of the organization.
c) Identify individuals from outside the organization who are key persons to the success of the organization.

According to Oracle, human capital management consists of the following key activities:

a) Procurement and recruitment of new staff.
b) Suitable profiling of these workers.
c) Traun and use of the acquired knowledge for improving the effectiveness of individuals and organizations.
d) Targeted communication about the expectations of individuals and organizations,
e) Analysis of performance expectations (Figure 4).

Human capital management plays an important role in increasing the efficiency of employees. Individuals are in a position to contribute more towards the system, eventually increasing the overall productivity of the organization. Human capital management:

- Hiring the right talent.
- Orienting employee to the organization.
- Making a new employee feel comfortable.
- Training employees in order to constantly upgrade their skills.
- Retaining employees.
- Making employees self-sufficient and prepare them for adverse conditions.

![Figure 4: The Contingent Workforce Lifecycle](http://www.oracle.com)

Whatever the views on the relationship between human capital management and human resources are any, benefit of human capital management concept is that it leads managers to a comprehensive and strategic approach to managing people, precisely according to their characteristics included in the human capital.

Human capital management provides management tools accurately and clearly to focus just those components of human capital, which are key for business, while the emphasis on the qualitative aspects of human resources in enterprises. An example would be design the talent management, which focuses on the management of one component of human capital, talent.

The need to propose this concept arose because human resource management includes comprehensive field and the new economic enterprises operating conditions (e.g. strong globalization processes and strong competitive pressures, economic recession since 2008) is not creating sufficient space for better focus on work with talent. Orientation to work with talent the company can bring in significant future financial and non-financial benefits.

5. Human capital management and efficiency

Human capital management is defined as the process of acquiring, training, managing, retaining employees for them to contribute effectively in the processes of the organization. This help that human capital management drivers act as catalysts for an effective human resource management.

There are five major categories of human capital management drivers: leadership practices, employee engagement, knowledge accessibility, workforce optimization, and learning capacity.
Leadership Practices

Employees must be treated well for them to develop a feeling of attachment and loyalty towards the organization. Managers ought to communicate well with their subordinates. Employees must have an easy access to the senior management. Communication from management to employees also known as Top down communication is essential for the employees to be aware of their goals and objectives and for them to know what is expected out of them. Management must interact and motivate the employees from time to time for them to give their level best.

Employee Engagement

Key responsibility areas of an individual should be designed in line with his education, skills, expertise, experience and also area of interest. This way, work never becomes a burden for him. Outstanding efforts of employees must be acknowledged for them to feel motivated and work harder even next time. Employees performing well ought to be suitably rewarded and appreciated in front of others. Responsibilities must be equally shared among employees. Employee engagement must be evaluated by the top management.

Knowledge Accessibility

Employees must have an easy access to all relevant information required to perform their duties. Organizations must organize various training programs (in house trainings or outsourced trainings) to constantly upgrade the existing skills of employees and acquaint them with new knowledge. Employees must be motivated to work in teams rather than working alone. The employees should be encouraged to share information with each other.

Workforce Optimization

Senior management must define work processes of employees well for maximum productivity. An organization needs to provide excellent working conditions to the employees to expect the best out of them. Individuals must be held accountable for their work.
Individuals responsible for talent acquisition must ensure that they hire the right candidate for the right role. Design a strong induction program for all the newly joined employees. Employee’s performance needs to be strongly monitored and managed.

**Learning Capacity**

New ideas should be welcome. Employees must be encouraged to come out with new and innovative ideas which might benefit the organization. Trainings must be relevant and designed to sharpen the skills of employees. Design training programs must benefit the employees. Employees must be aware of their growth plan in the organization. New knowledge should be valued by all in the organization.

6. **Information systems for human capital management**

In connection with the application human capital management began to appear information systems, which are provided by companies to implement IT systems or cloud applications. Information systems for human capital management are based on the definition of human capital, which is currently in companies perceived as assets (human capital) whose current value can be measured and whose future value can be enhanced through investment. Human capital management is an approach to employee staffing that perceives people as assets, but no sources, which increase business costs.

In some information systems for human capital management is the part of enterprise resource planning that deals with employee records. The records provide managers with the information they need to make decisions that are based on data. Human capital management software streamlines and automates many of the day-to-day record-keeping processes and provides a framework for human resource staff to manage benefits administration and payroll, create succession planning and document such things as personnel actions and compliance with government regulations.

In terms of talent that forms one of the components of human capital can be regarded talent management IT applications, which are mostly part of IT systems for human resource management, at the same time for human capital management. Thus see it some companies implementing IT systems or providing cloud applications. Talent management is then considered to be the centre of human capital management. Talent management software is an integrated set of applications that human resource professionals use to cultivate and maintain a company's human capital.

According to the consulting company Workday, information system for human capital management provides a holistic view of your global workforce, better inform managers, and make faster business decisions to drive sales, reduce costs, and improve productivity. Produce optimal data visibility, ensure cost-effectiveness, and operate with efficiency and accuracy. Strategize and prepare your organization for future shifts, emerging markets, and growth. Build effective teams by searching for workers by talent, skills, and job profiles and narrowing down their requirements with configurable filters.

SAS – software company – offers product „SAS Human Capital Intelligence“ which helps organizations analyse and optimize their work force. This solution surfaces relevant, holistic and predictive information that helps drive strategic human capital decisions. With this insight and foresight you can address critical business decisions and align human capital with organizational plans. All offerings within SAS Human Capital Intelligence include SAS Human Capital Management.

SAS® Human Capital Management helps organizations analyze workforce strengths and vulnerabilities, while surfacing opportunities and strategies that allow business leaders to proactively manage human capital. By providing a holistic view of your work force, the
solution gives you the consistent and accurate answers needed for strategic decision making. Benefits for organizations are: measure and improve workforce productivity, minimize risk by changing likely outcomes, proactively plan for future workforce needs, support enterprise performance improvement.

Within the human capital intelligence SAS provides for larger enterprises product SAS® Talent Scorecard which combines the strengths of SAS Human Capital Management and SAS Strategic Performance Management to develop human capital scorecards and strategy maps, allowing organizations to better manage their workforce strategy in support of organizational goals. Talent strategy maps link performance indicators and associated activities between critical functions related to human capital. Benefits for organizations are: set and graphically view organizational strategy, analyse cause and effect and leading or lagging indicators, measure the impact of human capital initiatives performance, develop dashboard alerts for risk factors.

Oracle Corporation delivers PeopleSoft Enterprise human capital management’s global core. The global core holds functionality that is common to at least two countries but typically serves many more. Examples of this core functionality include person model, position management, compensation administration, talent profile management.

Oracle’s human capital management systems offer easy defining, tracking and updating of contingent worker data such as:
- Management of contingent worker assignments.
- Succession planning can be conducted for both contingent labour and employees alike.
- Job openings can be filled with contingent labour by matching skills to job openings and integration between procurement and recruiting.
- Contingent worker data resides in delivered reports.
- Contingent labour can be paid directly through payroll or through accounts payable if the worker is requisitioned through a purchase order.
- Integration between procurement and recruiting.
- Analyse the success of both the worker and the supplier.

There are already some consulting and software companies are moving away from labelling human resource management and go through the use of human capital management, for example consulting firm Goldman Sachs. However, it is important that the department did not change only their names, but also to change the approach to understanding the importance of their employees as human capital holders who are involved in contributing to the objectives of the company, but also to invest in the human capital of their employees.

7. Conclusion

Human capital management is essential for hiring, managing, training and retaining talented and high performing employees. Human capital management plays an important role in the recruitment process. It ensures that human resource professionals hire individuals who really deserve to be in the organization. Human capital management plays an important role in orienting a new employee to the system. It is essential for employees to upgrade their knowledge with time to cope with the changing situations. Human capital management helps in training the employees and making them indispensable resource for the organization. Motivate employees to take up special courses or online programs which would help them in their job. Employees who do not brush up on their skills from time to time find it difficult to survive in the long run.
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