

Human Capital and Organizational Effectiveness

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Abstract: *The new organizational changes caused by social, economic and politic reforms led to a shift in the strategic management of the companies. The growing need for professionals, who know how to generate profits, is growing and increase confidence of partners and clients, find new ideas and adapt to a dynamic market. Therefore, internally, we need an efficient management of human resources to find and retain the most suitable and efficient people which will increase productivity and face the increased acting globally competition. Currently, companies that succeed are the ones that integrate in their business strategy, an important component of development and valuation human capital.*

The paper aims to analyze and highlight the importance of human capital in the new organizational strategies, focused on achieving a high level of competitiveness, innovation and excellence.

Key words: human capital, leadership, effectiveness, productivity

JEL Classification: J24, O15

Introduction

The changes are causing concerns because of the risk of losing control that occurs in any environment: individual, organizational, national and global. Minimizing the risk of any changes in strategy and management consists of people involved in this process of change.

The globalization process changed significantly the way in which businesses runs and accelerates dissemination of Know-how and innovation. From this perspective organizations need to become more competitive. The education, training and change are inter-related. In this context, investment in human capital becomes a crucial factor to increase productivity both at the organizational level and macroeconomic level. Human capital may determine both the added value created in the economy through direct participation in the production process, and growth rate of added value by its innovative capacity. These occurred changes in the modern economy and the major role that important theorists had in this field have led to a new economy based on knowledge, in which education plays a significant role. The role of education in economics is not a very new concept, its roots date back more than six decades ago, but in present the education role is more important than ever. In present education is recognized as a fundamental part in providing human capital to the economy, and also recognizes the need for education to transmit the skills and aptitudes towards flexibility. This marks the entry in the new economy or knowledge society, in which competitiveness depends on skills and human capital possessed.

1. Leadership and human capital management

An important role for an organization, in elaboration and implementation the strategy of human capital, is to identify the skills needed both in present and in future. To achieve this requirement there is a need for leaders who have a clear vision of the organization's future. Organization's leaders must value knowledge and experience within the company so that the organization per ensemble and each of its members can learn more effectively. It is not enough for employees to simply understand the strategic intent, but also the leaders have to succeed in implementation and achievement of positive results. This requires a careful assessment of necessary skills, existing competences, the lack of skills assessment to which organizations must respond by creating development plans and learning strategies tailored to their organization. "Leadership involves collective action in order to bring significant changes, enhancing the competence and motivation of all those involved, i.e. the action of more than one individual influence the process¹ ." Leadership should be seen as a process that encompasses all levels of organizational hierarchy, each level having a corresponsive role in general strategy of organization. For each level it is identified a specific type of leadership:

- For the superior hierarchic level the pattern is the strategic leadership;
- For specific middle hierarchical level the pattern is team leadership;
- To the bottom of the hierarchy the pattern is the technical leadership.

¹ Popa, Ion, General Management, <http://www.bibliotecaadigitala.ase.ro/biblioteca/carte2.asp?id=471&idb=>

The objectives within each hierarchical level are different, and on the other hand, aim to achieve a common organizational climate as performance and efficiency. In the strategic leadership objectives are included: creating strategic thinking, understanding and sharing common values and organizational vision. The objectives for the team leadership are closer to the specific development of human capital through skills training and specific interpersonal team skills. Besides, the above two types, technical leadership helps developing human capital as its objectives include developing and highlighting the technical and professional skills of employees by finding the most suitable organizational contexts that lead to performance of employees and not to the erosion of human capital. The need for leadership at all hierarchical levels

is justified by the fact that the lack of values and norms of joint action will lead to inefficiencies and will affect the competitiveness of any organization. Currently, in addition to economic changes, the absence or ineffectiveness of managerial leadership may be an explanation for many of the companies that lose a large part of the customer's portfolio and profit. Also, within these organizations, employees feel ignored and unvalued in terms of skills they possess. The absence of values and common vision on a long term break the ability of managers to increase labor productivity and competitiveness of its employees. From the general perspective, leadership is a series of roles that a leader has in the organization. These roles are shown in the figure below.

Figure 1. Leader's role in the organization



Source: Author

In terms of effectiveness, leadership is the ability of a person to:

- Create and develop a vision;
- Establish guidelines operations;
- Realize the vision with team members;
- Track project's processes;
- Achieve the desired results through

the organization, control and provide problem solving solutions as they arise.

Therefore, it is necessary for organizations to find a competent leader to plan and organize workflow so that his subordinates could maximize the performance. An effective human capital strategy helps put in place the right leaders to source, develop and direct the right workforce talent. According to Smith¹ "a human capital strategy supports an enterprise in meeting today's urgent needs while also helping it become agile enough to reposition itself for ongoing market competitiveness and growth.

Today, the human capital held by employees in a company are those resources that can contribute to competitiveness and high productivity as long as the management and the leadership in the organization will know how to train and capitalize the resources by putting them in a favorable internal contexts of the organization. I prefer to call them "internal favorable contexts" because it cannot be limited only to provide the most suitable job, but may include: learning - to share common values and norms; a customization of HR strategy to develop human resources; motivation and efficient training to cope with changes requested by the job or the organization.

¹ Smith, David; Silverstone, Yaarit and Lajtha Adrian, Human capital strategy as a business differentiator, Accenture, 2010, <http://www.accenture.com/us-en/outlook/Pages/outlook-online-2010-human-capital-strategy.aspx>

2. Organizational effectiveness

Organizational effectiveness is a new concept that has attracted the attention of specialists once with the transition to a new organizational context characterized by change, competitiveness and high performance. The literature provides various definitions of the concept, of which we have chosen to highlight some of the most appropriate of this paper approach. Thus, "organizational effectiveness is defined as the extent to which an organization, by the use of certain resources, fulfils its objectives without depleting its resources and without placing undue strain on its members and/or society"². Another point of view indicates that "effectiveness evaluates the performance of business units' efforts with respect to strategic goals, and serves as a critical component in the management planning and control processes" (Griffin, 1987). Also, effectiveness "plays an important role in accelerating organizational development"³. It is "the net satisfaction of all constituents in the process of gathering and transforming inputs into output in an efficient manner"⁴.

Scholars and practitioners draw attention to the difference between efficiency and effectiveness. They are not synonyms their meaning is different, it may be possible

² Thibodeaux, Mary and Favilla Edward, Organizational effectiveness and commitment through strategic management, 1996, *Industrial Management & Data Systems*, vol96, No 5, pp 21-25

³ Bulent, Aydin and Adnan Ceylan, The role of organizational culture on effectiveness, *Ekonomika A Management*, 2009, http://custom.kbbarko.cz/e%2Bm/03_2009/03_aydin_ceylan.pdf

⁴ Grawhich, Matthew and Barber, L.K., Are you focusing both Employees and Organizational Outcomes. Organizational Health Initiative at Saint Louis University, Missouri, S.U.A., 2009

that organization present high efficiency but couldn't gain their objectives. Sometimes efficiency doesn't result to success. Thus, frequently, organizational effectiveness is seen as the "ability of the organization, in either relative or absolute terms, to exploit its environment in the acquisition of scarce and valued resources"⁵. The indicators of effectiveness summarized by Price⁶ include the accomplishments of goals such as high productivity, morale, conformity, adaption, and institutionalization. To achieve the performance of these factors it is needed to develop a leadership style based on progress, innovation and an approach to respond to the needs of the employees.

2.1. The relationship between human capital – effectiveness - leadership

Generally, investing in human capital, namely in education, health and training aims to develop professional and scientific training of available human resources, but also adapt human resources to structural economic changes imposed by technological and scientific progress on efficiency criteria. Also, higher education capital implies a higher value of the workforce due to increased productivity, implying a higher payment if it is sold (salary reflects, in general, the marginal productivity of labor, which increases with education level, as demonstrates the human capital theory). Another important component is the health care of the workers who develop human capital by improving physical

and mental skills and affect human productivity by reducing time lost due to illness.

At the specific level, the Enterprise decision of investment is linked to the company interest in increasing the quality of work. The company is acting for it in the following areas:

- a) Increase the general level of education and training of human resources;
- b) Ensuring a high level of health;
- c) Promote an effective system to motivate employees.

The Human capital investments involve an initial cost tuition and training course fees, forgone earnings while at school and reduced wages and productivity during the training period) which the individual or firm hopes to gain a return in the future. In other words, only employees possessing value and uniqueness are qualified as human capital. The qualities of employees with core skills are the fountain source for a company to raise competence and profits. The studies provide evidence that training generates substantial gains for employers and organization. Innovation and IT not only cause firms to invest more in trainings but are also highly dependent on education, skills and training in generating profit from these investments.

Firm's Investment in Human capital has positive effect on:

- Productivity. The impact on productivity of training undertaken with a previous worker's initial productivity by 9.5 percent. Previous on-the-job training has more long-lasting benefits and increases current productivity by 16 percent.
- Profitability. The productivity increase is over twice the size of the wage increase caused by training. On-the-job firm-provides training sometimes generates

⁵ Yuchtman, Ephraim and Stanley Seashore, A System Resource Approach to Organizational Effectiveness, American Sociological Review, Vol. 32, 1967, 891-903

⁶ Price, James, Organizational Effectiveness: An Inventory of Propositions, Homewood 111, Irwin Publishing House, 1968

considerable third-party externalities when trainees do not stay with the employer who trained them.

- Long term competitiveness. More highly-educated and more highly skilled workers have been found not only to be able to adapt more rapidly and efficiently to new tasks and technologies, but also to be direct source of innovation.

The aim of the human capital strategy is to turn human resources into a more tangible asset, and to plan and to match up the employees in the organization to the firm's strategic needs. An efficient and adapted strategy can also help the organization to attract and hire top talent by applying recruiting practices toward specific individuals, based on the organizational real needs and the human capital owned by the individuals. Moreover, it can increase engagement and job satisfaction, thus reducing attrition and lowering turnover costs.

Conclusions

A program to create and implement a human capital strategy involves various stages of work across four primary work

directions—talent, leadership, culture and organization. The human capital strategy can be seen as a crucial element in the triad of business strategy - human capital strategy – human resources strategy. According with Smith and all⁷ : the business strategy gives the directions, scopes, objectives and competitive distinction, while the human strategy defines the talent, skills, leadership, culture and organization to fulfill the business strategy. The implementation of these two strategies is closely related to human resources strategy that identifies and articulates the imperatives of human resources organization and relies on the capabilities required to align human capital strategy. For this strategic triad to be effective, the leaders need to support the vision, talent and management skills in order to create and develop strategies, making opportunities in the internal and external environment, in the current reality of the organization.

⁷ Smith, David; Silverstone, Yaarit and Lajtha Adrian, Human capital strategy as a business differentiator, Accenture, 2010, <http://www.accenture.com/us-en/outlook/Pages/outlook-online-2010-human-capital-strategy.aspx>

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