Human Capital And Its Influence On The Organizational Competitiveness

~ *Ph. D.* **Ioana - Julieta Josan** *(Faculty of Administration and Business, University of Bucharest, Romania)*

E-mail: ioanajulieta@yahoo.com

Abstract: *The knowledge economy model is marked by investment in research, development, innovation and human capital which is the key drivers of modern economy for increasing returns. The allocation of resources in human capital brings performance and benefits to companies investing in their employees. Moreover, in present, once with the globalization and economic crisis, the world economy is crossing through powerful changes and challenges. The paper aims to highlight the role of human capital in the new organizational management strategies focused on achieving a high level of competitiveness, innovation and development through management and leadership strategies.*

Key words: human capital, management, development, competitiveness, investment, organization

JEL Classification: J24, O15

Introduction

The globalization process changed significantly the way in which businesses runs and accelerates dissemination of know-how and innovation. At the same time, we are witnessing, today to a restructuration of the labour market, characterized by a demand for very well trained human resources, with high level of skills, and a greater ability to adapt more easily to dynamic organizational environments, competing to introduce new technologies and to enter as many markets as possible. In such context, it is necessary to balance the investments and to support the development of human resources, all needed to increase the economic competitiveness.

Current debates in business and academic environments are merging to the usage of new educational contents to ensure a lifelong learning, so as the individuals to be able to continually acquire new skills and competences, more adapted to the innovative processes and technologies.

From this perspective organizations need to become more competitive. The education, training and changes are interrelated. In this context, investment in human capital becomes a crucial factor to increase productivity both at the organizational level and macroeconomic level. Human capital consists of those skills which are characteristic of individuals and remain the same in their entire social environment. Human capital can be sold on market labor in exchange for economic resources of any kind. Basically, human capital arrives at 9am and leaves at 5pm. On the other hand, the investment in human capital represents the investing in education or some form of on-the job training to improve workforce quality which provides returns to the individual as well as to the economy as a whole. Individuals benefit from higher earnings, the organizations win competitiveness and the economy as a whole benefits from higher productivity. 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.

Literature review

The concept of human capital is attributed to Theodore Schultz, theoretical developments around this concept dates from the 60s and are related connected to the author contributions above mentioned to which it is added the contribution of Gary Becker and Jacob Mincer. Theodore Schultz has seen education and health expenditures as investments into increase labor productivity and thus economic growth. Gary Becker theory shows that "The individual income increases substantially depending on the level of education" (Becker, 1997). Nowadays, the theory of Economy considers Human capital being a major factor in generating future growth and prosperity. Naisbitt affirms that in transition from industrialized economy based on high-tech economy, skilled labor is required for high technology. Therefore, the issue of investment in human capital today is a concern for all countries competing for progress and prosperity, but more so, for the countries in transition to market economy. At the beginning of the twentieth century, Irving Fischer has developed a theory that considers any stock as capital resources leading to the birth of future income, considering training people, along with the construction of cars as investments. Thus, the spectacular increase

in the needs of specialists of different professions, generated by technical and technological developments determined also the restructuring of general knowledge essential for most jobs; vocational training was becoming more and more perceived and considered as an investment. Given the general trend of increasing demand for more educated labor in all industries and highly qualified staff, the investment in human capital is strategic for any country that seeks to create a knowledge economy. At the macroeconomic level, in recent decades, no country has achieved a sustained period of development without having invested substantial amounts in the labor force and the quantitative evaluation of its contribution to economic growth and development, the most important role was assigned to the investment in human capital (Becker). The explanation that Becker gave to the economic processes, drove his theory as a promoter of the empirical analysis and explanation which represents the starting point for the development of human capital theory. The primary model of the human capital developed by the initiators of this theory seemed to provide most of the answers at the time, by building a model of the demand for education. However, their assumptions were contradicted by researches stating that the inequalities of the demand have, in general, other causes than those related to individuals' preferences, while the offer of education is not unitary and has influences in the development of schooling. Further developments of the models and the theories elaborated in recent decades converge to a number of tendencies which characterize the newest economical realities, such as: increase of the consumption of new developed technologies, increase of the interdependencies, increase of the labour consumption, characterized by high qualifications and replacement of less qualified human resources.

The connection between organizational management and human capital

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 favourable internal contexts of the organization.

Using the human capital generate competitive advantages. Only those communities, those organizations and those nations which understand and act to preserve, protect and develop the human capital stock will gain the best profit. This ongoing process involves not only investment in education and training, but also in other areas which contribute to the "production" and maintenance of human capital. Firms/companies should see the human resources more than a cost - a price to pay to do. They have to consider them an investment that can provide high returns and strong competitive advantages. The knowledge human resources stock represents an important component of the organizations, human capital is individual and cannot be owned and, of course, human capital cannot be copied by the competitors. The organizational economic development can be considered the product of two factors: the human capital and the human processes of the company (knowledge management). The human capital consists in those skills and knowledge acquired in school or in other educational contexts which is used by the company under

a contract of employment. Hence, human capital can be highlighted through inspired and well-planned management strategies. When a company invests in human capital, it automatically increases its value, achieving a sustainable competitive advantage. Human capital was also individually defined as the combination of the following factors: genetic inheritance, education, experience, attitude towards life and business. In addition to individual skills, human capital is considering a dynamic of a company based on learning in a changing competitive environment and its own creative and innovative potential. Human capital depends on competence and intellectual abilities and skills of members of such organizations

An important role for an organization, in elaboration and implementation human capital strategy, 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.

Leadership and management 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.

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.

Changes occurring in the current economic and organizational level require an adaptation of vocational learning, and the role of businesses is essential, similar to how IBM spends about 500 million dollars annually for the training and education of employees, Intel annually invests 100 million dollars, including for employees in Romania and the positive examples are not limited to the IT industry, covering all industries.

Human capital - defined as those qualifications, skills, abilities, competences and knowledge held by a person who contributes to a production process by creating value, social or economic value - is a fundamental factor for economic development. These skills are acquired by a person through the formal training process (elementary / or higher education), vocational training and on the job training.

High levels of human capital facilitates the adoption of new technologies (Nelson and Phelps, 1966; Acemoglu, 2003). This concept is valued even in human capital theory which held that workers with high skill levels increases productivity more than those with low levels of human capital. The theory is developed and the American economist - Robert Lucas[1] - who, almost three decades ago, said that investment in human capital leads to increased economic activity that improves productivity by individual and organizational levels (Lucas, 1988).

At the specific level, the organizational 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 characteristic of investment in human capital can be summarizing as follow:

- The effect will appear with a large gap in time, duration of payback is high;

- Investments in human resources, on the long term, are most effective;

- Human capital is an intangible asset as it is not owned by the firm that employs it.

- It enhances the ability of agents to adapt to change and to respond to new opportunities.

The organization'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 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 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 who have 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.

[1] Lucas, Robert (1988), On the Mechanisms of Economic Development, Journal of Monetary Economics 22, pp. 3-42,North-Holland, http://www.parisschoolofeconomics.eu/docs/darcillon-thibault/lucasmechanicseconomicgrowth.pdf,

Conclusions

The human capital strategy can be seen as a crucial element in the triad of business strategy - human capital strategy – human resources strategy. For this strategic triad to be effective, the organizational 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.

From an economic point of view, the transaction-costs indicate that firm gains a competitive advantage when they own firm-specific resources that cannot be copied by rivals. Thus, as the uniqueness of human capital increases, firm have incentives to invest resources into its management and the aim to reduce risks and capitalize on productive potentials. In the same time, individuals need to enhance their competency skills in order to be competitive in their organizations. Studies also proved the fact that financial performance is positively impacted through the consideration of human capital.

REFERENCES:

1. **Acemoglu, Daron** (2003), *Patterns of Skill Premia,* Review of Economic Studies, April 2003, pp. 199-230
2. **Adair, John** (2003), *Liderul inspirațional: Cum să motivăm, să încurajăm şi să avem succes,* Bucureşti, Meteor Press Publishing House
3. **Becker, Gary**(1997), *Capitalul uman. O analiză teoretică și empirică cu referire special la educație,* București, All Publishing House
4. H**offman Oscar, Glodean Ion şi Raşeev Simona**(2006), *Schimbări în structura pieţelor şi problemele transferului în noua economie a cunoaşterii*, Academia Română, Institutul de Sociologie, Bucureşti
5. **Holoviak Stephen şi Stone Sipkoff Susan** (1987), *Managing human productivity: people are your best investment*, Praeger Publishers, New York
6. **Lucas, Robert** (1988), *On the Mechanisms of Economic Development,* Journal of Monetary Economics 22, pp. 3-42,North-Holland, http://www.parisschoolofeconomics.eu/docs/darcillon-thibault/lucasmechanicseconomicgrowth.pdf,
7. **Naisbitt, John** (1989), *Megatendințe. Zece direcții care ne transformă viața*, Editura Politică, Bucureşti
8. **Năstase, Marian** (2007), *Lideri, leadership şi organizaţia bazată pe cunoştinţe*, Bucureşti, ASE Publishing House
9. **Nelson, Richard R. and Phelps Edmund S.**(1966), *Investment in Humans,* Technical Diffusion, and Economic Growth, American Economic Review, March 1966, 56(1/2), pp. 69-75
10. **Pavelescu Florin-Marius, Ciutacu Constantin, Chivu Luminița şi Munteanu Andreea Clara** (2007), *Capitalul uman şi performanţa economică*, Editura Expert, Bucureşti
11. **Popa, Ion,** *Management General,* București, http://www.biblioteca-digitala.ase.ro/biblioteca/carte2.asp?id=471&idb=
12. **Romer, Paul** (2010), *Which parts of Globalization Matter for Catch –up Growth?,* NBER Working Paper nr. 15755
13. **Roşca, Gheorghe Ion** (2006), *Societatea cunoaşterii*, Editura Economică, Bucureşti

14. **Schein, Edgar** (1992), *Organizational Culture and Leadership.* 1st ed. San Francisco, Jossey-Bass Publishers
15. **Schultz, Theodore**(1961), *Investment in Human Capital,* The Americam Economic Review, vol.51, p.1-17
16. **Smith, David; Silverstone, Yaarit and Lajtha Adrian** (2010), *Human capital strategy as a business differentiator,* Accenture, http://www.accenture.com/us-en/outlook/Pages/outlook-online-2010-human-capital-strategy.aspx
17. **Staicu, Gabriel, Angelescu Coralia** (2006), *Capitalul uman şi creşterea economică,* Editura A.S.E., Bucureşti
18. **Suciu, Christina** (2000), *Investiția în educație,* București, Economică Publishing House