

Article

Management of Human Capital and its Impact on Firm Performance

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Abstract: Nowadays human resources are getting wider attention in order to accelerate economic growth, mainly after, the economic practice of developed countries proved that they possess direct impact on firm's potential to achieve its strategic, operational, and financial goals. However, investments spent upon employee's skills, expertise, and competences, still recognized as an expense instead of capital in traditional method of accounting, but why is that? And how this trend can be changed?

Key words: Human capital, productivity, measure of nation's ability, cost of production, effective management

1. Introduction

Human capital - defined as the collective knowledge, skills, experience, abilities, and competencies of employee - is widely recognized as one of the most important resources of modern firms due to its irrefutable role in enhancing productivity, fostering innovation, ameliorating service quality, and sustaining competitive advantage [1]. Therefore, it is often used as a measure of a nation's ability to compete in a global economy.

The concept of human capital dates back to early economic theories but became widely recognized in the twentieth century. Before this, labor was often viewed simply as a cost of production rather than an asset that could be developed. The term gained popularity as studies showed that countries with strong educational systems and well-trained workers had higher economic growth. As a proof, let's take a look at history [2].

2. Methodology

This study was conducted with a qualitative and comparative analytical methodology to analyze the relationship between human capital management and firm performance. The main source of the research is secondary data from literature, economic reports, or previously published empirical work on human capital and motivation and organizational performance [3]. A descriptive statistics is used to define the main concepts of human capital, employee motivation and strategic use of resources, and subsequently a comparative analysis comparing the findings between countries and companies in order to detect correlations/hypotheses between human capital development and economic consequences. We analyse, in particular, statistical data of

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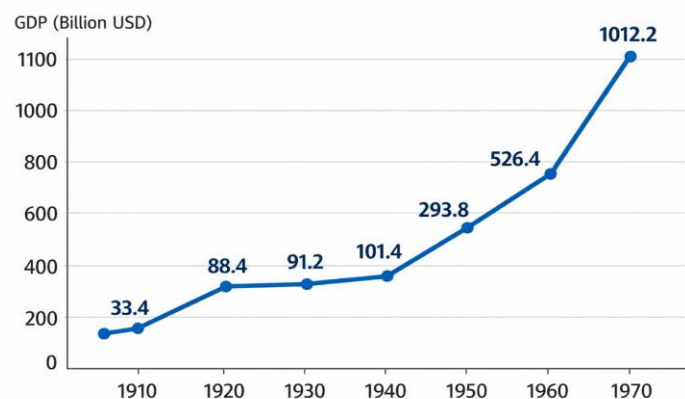
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Human Capital Index and GDP levels of selected countries to find a macro level correlation, and a case study method also grants us an opportunity to focus on, say, motivation and/or reward system, and other organizational practices as management strategies [4]. It uses the case of a successful company to substantiate employer commitment on grounds of economic, profession- and psycho-social motivation that positively affect firm performance. Additionally, theoretical frameworks from human resource management scholars are incorporated to aid in the interpretation of the findings and maintain conceptual clarity. By way of logical inference, this study links theory with what actually gets operationalised in practice to provide an explanation as to why and how human capital can be conceptualised as an expense rather than an investment, and how effective management can reduce the risks associated with this [5]. This dual methodology enables a thorough assessment of human capital management from both theoretical and practical perspectives and the influence that human capital management has on organizational performance.

3. Methodology

Figure 1. U.S. GDP in 1910-1970



Gross domestic product level in the United States of America comparing the years between 1910-1970. (Figure 1)

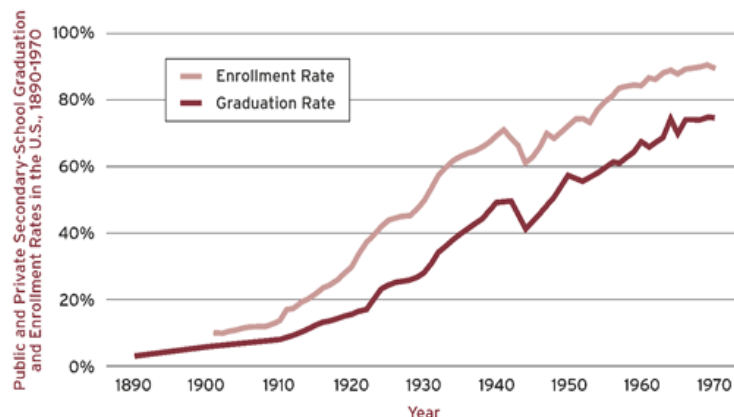


Figure 2. Graduation and enrollment rate in the U.S.

The United States established its leadership of human capital by expanding secondary school to the masses. (Figure 2)

Claudia Goldin, distinguished professor of Harvard University has associated the upsurge in economics with industrial change from physical capital to human capital, which had made the U.S. leader of economy (Figure 1). "The template was mainly shaped by egalitarian institutions (a commitment of equality of opportunity), republican ideology, democracy and pluralism. However, a remarkable notion had emerged around 1900: when it was realized that schooling could make the ordinary office clerk, shop-floor

worker, and even the farmer more productive, making the term human capital widely recognized" [6][7]. As a result, demand for education commenced to skyrocket (Figure 2). Moreover, Table 1 shows how high rate of human capital index connected to GDP level of country in example of several countries comparing the years 2010 and 2020.

Human capital index vs GDP level comparing the years 2010 and 2020.

(Table 1)

Country of region	2010		2020	
	Human Capital Index (HCI) (scale 0-1)	GDP per capita (In constant international- \$ in 2021 prices)	Human Capital Index (HCI) (scale 0-1)	GDP per capita (In constant international- \$ in 2021 prices)
Germany	0.76	\$54739	0.75	\$60203
The USA	0.69	\$59789	0.70	\$67342
Uzbekistan	No information	\$5761	0.62	\$8727
Russia	0.60	\$33064	0.68	\$36376

Each and every human being is a biological entity with own, personality, capability and needs. Despite being the most risky investments, human resources are the most strategic resources of the modern organizations. Effective management is not only the most appropriate solution to minimize risks, but also key aspect for economic growth. As famous specialist in economics said: there are no underdeveloped countries, only mismanaged ones, hence, import of management knowledge seems to be more crucial, than import of technology. Additionally, practice has shown, undoubtedly, that the investment in people is a warranty for survival, it ensures the competitive and future of the organization. This is why Naisbitt and Aburdene stated "In the new informational society, human capital has replaced the financial capital as a strategic resource [8]."

Albeit the above-mentioned advantages, human resources still remain the least invested resources and as an underlying justification for this, I am going to restate the phase, that human capital is the most risky and it is better for organizations not to view human capital as investment, but expense. And why is that? How can the risks be managed? The reason is quite simple. The more an employee gains job experience and knowledge, the more the employee tends to seek for better career opportunities. To prevent this, the intentions of the employer and the employee should be aligned, which can be achieved via strong management. As one of the strategy of management, motivation and rewards are going to be investigated with case study and references.

Initially, before the implamentation of the strategy, the word motivation and reward must be understood. As stated by one management practitioner, the HR manager of Cadbury Schweppes, A. Gozzard "In the company, you have one resource; it is people, and the managing of those people. The difference between being average and being great is motivation. "It is the glue that binds together the objectives and strategies of the organization" [9]. This view emphasizes motivation as an integrative mechanism that unites individual performance with collective organizational goals. In addition, some well-known authors offer more points that emphasize different aspects of motivation and give the concept a different meaning.

According to D. Middlemist, & M. Hitt [10], motivation can be defined as "the lower degree of the individual that incites, directs the behaviour towards a goal that, when attained, will result in the satisfaction of a need." This definition offers a key insight into motivation: it is internally driven, pushing individuals toward actions with purpose. Likewise, other thinkers refer to motivation as "the readiness of the employee to engage and put constant effort to reach certain professional objectives, defined at the

individual or organization level" [11], highlighting the commitment and the sustained effort as its main ingredients.

An alternate definition, provided by G. Lemeni and M. Miclea, states that "motivation is the emotional and cognitive states and processes which provide, direct and maintain a varied behavior and activity" [12]. This reading expands the meaning by including psychological mechanisms and observable practices. D. Popescu also describes the concept of motivation as "the total amount of internal and external energies that start and continue a behavior to achieve an aim or a goal where the level of necessity is satisfied once the goal is reached" [13], thus, defining intrinsic and extrinsic factors in a common context.

Also, T.Ramona, L.Frăticu, S.Alexandra describe the motivation as sine qua non condition of efficient management of human resources, mentioning that success or failure of an organization is strictly related to human resources. They contend that motivation goes beyond motivating employees to work as much as it covers this reality to ensure effective performance by fully using the physical and intellectual potential of people [14]. The first thing you should be aware of when implementing this is know thyself, meaning know everyone — personality — your needs — and how you behave, as this knowledge leads to how to motivate them better. It has been highlighted before the employees who are not identified, understood and motivated do not actively and effectively participate in attainment of the strategic goals of the organization. The person is a biological machine, always embodying the unknown unknowns, which can improve or degrade the results of organizational processes. Hence, in order to take full advantage of its employees and their individual characteristics, an effective human resource management system is required. Ultimately, it is well-established that "meeting organizational goals is fundamentally connected to employee drive" [15].

One of the best cases that has a good management system is Southwest Airlines which has been profitable for the past 47 years. The company based its human capital strategy on its employees and a favorable workplace culture building around three fundamental motivators: economic, professional and psychological motivators, which include salaries, incentive payments and prizes; position, status and recognition; and an acknowledgment from the organization and its peer groups.

Because employees feel valued and motivated, they show high commitment and better customer service, which made the company successful with historically low employee turnover than other airline companies and high level of customer loyalty.

Figure 3. Southwest profit-sharing payouts over time (1973-2024)



The bar graph illustrates the data about the company's amount of money allocated for employee's salary. (Figure 3)

4. Conclusion

The link between human capital management and firm performance highlights the importance of placing people center of the business strategy. Organizations that invest in employee development, foster a positive work environment, and align individual goals with organizational objectives are more likely to achieve sustainable growth. Because, human capital is not merely a resource but a strategic asset that drives innovation, productivity, and overall efficiency.

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