

UDC 005.21:330.16

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## HUMAN CAPITAL MANAGEMENT: ESSENCE AND EVALUATION

### УПРАВЛІННЯ ЛЮДСЬКИМ КАПІТАЛОМ: СУТНІСТЬ ТА ЕВОЛЮЦІЯ

#### ANNOTATION

The article discusses the interpretations of the human capital management. The essence of human capital management in the conditions of the modern global economy based on knowledge is characterized. The transformation of personnel management into the human capital management is analyzed.

**Keywords:** human capital, human capital management, knowledge, skills, abilities, competences, knowledge management, competitive advantage.

#### АНОТАЦІЯ

У статті здійснено аналіз трактувань управління людським капіталом. Охарактеризовано сутність управління людським капіталом в умовах сучасної глобальної економіки, заснованої на знаннях. Аналізується трансформація управління персоналом в управління людським капіталом.

**Ключові слова:** людський капітал, управління людським капіталом, знання, навички, здібності, компетенції, менеджмент знань, концепція, конкурентна перевага.

#### АННОТАЦИЯ

В статье выполнен анализ трактовок управления человеческим капиталом. Охарактеризована сущность управления человеческим капиталом в условиях современной глобальной экономики, основанной на знаниях. Анализируется трансформация управления персоналом в управление человеческим капиталом.

**Ключевые слова:** человеческий капитал, управление человеческим капиталом, знания, навыки, способности, компетенции, менеджмент знаний, концепция, конкурентное преимущество.

**Target settings.** Over the past 15 years, interest has increased in the new economy – a knowledge-based economy. Its distinctive feature is the accelerated development of the immaterial sphere and the intangible environment of economic activity. Knowledge, and not capital and not the means of production, become the main economic resource that determines the competitiveness of any organization. The carriers and creators of knowledge are people. That is why in the modern conditions the role of human capital management in the organization is growing even more. Human Capital Management represents a “paradigm shift” of traditional management based on efficient use of material resources to innovative

management, the priority of which is the social HRM orientation. The urgency of such a shift is due to the main features of the modern world and modern business, which include: increased dynamism, uncertainty and riskiness, complexity and interconnectedness of all processes and phenomena. In the domestic environment is an objective need to consider workers not as a resource, as well as the capital, as well as consideration of social and psychological factors in the development of management actions is not yet clear, not only for many managers, but also for scientists involved in this problem. At the same time, a misunderstanding of the problem does not eliminate its presence and does not diminish its significance. In Ukraine today there is a sharp decline in the quality of employees, a decrease in their professionalism level, obsolescence of their knowledge (and the aging of the population is an objective reality). And this applies not only to leaders and creative workers, but also representatives of working professions. Characterizing this problem, the authors of [1] note: “The country is rolling in the pre-industrial era, rapidly losing human capital... It remains not long before the moment when for work at metallurgical and food factories it is necessary to invite in large numbers foreigners”. Thus, the trend of improving personnel management in the developed countries, as well as the practical absence of the modern view of the staff and the insufficient use of adequate current conditions hikes and psychosocial their management practices in Ukrainian enterprises cause actual theoretical research in this area, including with a view to adapting world experience to the conditions of functioning of domestic business.

**Actual scientific researches and issues analysis.** Initially, the concept of human capital appeared in the economy, not in management. It was connected with the fact that employees were viewed as a productive force, leading to economic results and requiring certain costs.

Management issues during this period of development of socio-economic relations were in the background and were reduced, mainly to increase in labor productivity. Currently, the concept of human capital is very widely used in various fields, including economics, accounting, human resources management and intellectual capital. However, despite the fashionable use of the term human capital among theorists, business practitioners and consultants campaigns to understand the essence of human capital, as well as the concept of managing it, are very diverse, sometimes contradictory. Some researchers studied the theory of human capital and investments in it [3, 4, 6, 7], other scientists viewed human capital as intellectual capital [8, 9], and many studies are devoted to the evaluation and measurement of human capital [5, 10].

Such a multitude of opinions and directions of research is undoubtedly determined, firstly, by the complexity and novelty of the problem and is absolutely objective. At the same time, consideration of the employees of the enterprise as human capital and its management from the standpoint of the need for effective investment and increasing the cost determines the need for the formation of theoretical foundations for such management, on the basis of which it is possible to form an effective management technology and use it in practice. The priority issues that need to be resolved are the substantiation of the essence of human capital as an economic category, the identification of the main components of human capital, the formation of the basic tasks and the structure of the management of human capital.

**Problem definition.** The purpose of the article is to develop a methodology for managing human capital, including clarifying the categorical apparatus, as well as substantiating the key tasks and structure of the human capital management system that ensures its strategic orientation, social orientation, the formation of a sustainable competitive advantage of the organization by raising and making the most effective use of the potential of its labor collective.

**Statement of the basic materials.** Traditionally, a person was considered among the classics-economists primarily through his function – work. At the same time, despite the primitivistic attitude towards man as a labor force alone, there was already an understanding of the paramount importance of workers in the process of social reproduction. A. Smith wrote that “the increase in the productivity of useful labor depends, first of all, on the agility and skill of the worker, and then on the improvement of machines and tools with which he works” [1]. In the conditions of the scientific and technological revolution, there was a shortage of highly qualified personnel. In the 1950s, the center of gravity of research shifted from the processes of using the available labor force to the processes of creating a qualitatively new workforce. In the second half of the twentieth

century, in all developed countries, there was noticeable progress in the development of intellectual productive forces.

Thus, at all stages of the development of social production, the dominant role of workers, their skills, qualifications, competence and, of course, motivation for productive work is traced. However, the cardinal change in the role of personnel and its consideration not as a resource, but as capital, occurred only in the second half of the 20th century. “The discoverer” of the concept of human capital was the Nobel laureate and economist T. Schultz. In the articles “Formation of the Capital of Education” (1960) and “Investments in Human Capital” (1961), he outlined his vision of the new economic role of man and his abilities in the modern economy in the form of a strict concept. Human capital was considered by T. Schulz as a stock of knowledge, skills, abilities, qualifications and motivation that everyone has. The classic of modern economic thought was G. Becker's book “Investments in human capital” [6]. The approaches formulated in it serve as a theoretical basis for all subsequent studies in this field.

H. Scarborough and J. Elias [2], developing and adapting the understanding of human capital to modern conditions, state the following: “The concept of human capital is often seen as a binding concept, ie, the relationship between practical methods of managing human resources and the quality of the company's work in terms of assets, not business processes. « They emphasize that human capital is largely “unstandardized, implicit, dynamic, context-dependent and embodied in people.” These characteristics make it difficult to assess human capital by recalling that “the characteristics of human capital, which are so important to the effectiveness of firms, is the flexibility and creativity of individuals, their ability to develop skills over time and to respond to different contexts in a motivated way.”

It is the knowledge, skills and abilities of people that create value, so the main focus should be on attracting, retaining, developing and preserving the human capital that they represent. T. Davenport [11] comments: “People have innate abilities, behavior and personal energy, and these elements form human capital that workers bring into their work. It is employees, and not their employers, who own this capital and decide when, how and where they will invest it. In other words, they can choose. Work is a two-way exchange of values, not a unilateral use of the asset by the owner.” Among other things, employees decide how to do their work and how much effort, attention, innovation and productive behavior to invest in the work process. In addition, they decide: they will stay in the organization or leave it.

A brief historical digression testifies that over more than 50 years of the existence of the concept of human capital in economic literature, many different definitions of this concept have

Table 1

## HC definition

Author, year	Definition
Hudson, 1993	The combination of these four factors: your genetic inheritance, your education, your experience, and your attitudes about life and business
Becker, 1993	Knowledge and skills embodied in an individual
Sveiby, 1997	A capacity to act in different situations to create both tangible and intangible assets
Davenport and Prusak, 1998	The intangible resources of abilities, effort, and time that workers bring to invest in their work
Bontis, 1999	the individual stock of knowledge embedded in the firm's collective capability to extract the best solutions from its individual employees
Sullivan, 1999	The firm's individual employees who possess skills, abilities, knowledge, and know-how
Mayo, 2000	A capability, knowledge, skill, experience, and networking, with the ability to achieve results and the potential for growth
OECD, 2001	the knowledge, skills, competences and other attributes embodied in individuals that facilitate the creation of personal, social and economic well-being
Walker, 2001	The set of skills, knowledge, and capabilities organizations need to succeed in the new knowledge and technology economy
McGregor et al., 2004	Embraces both the broader human resource considerations of the business workforce (traditionally known as the labour market) and the more specific requirements of individual competence in the form of knowledge, skills and attributes of managers and the people they manage
Abeysekera and Guthrie, 2005	A combination of factors possessed by individuals and the collective workforce of a firm. It can encompass knowledge, skills and technical ability; personal traits such as intelligence, energy, attitude, reliability, commitment; ability to learn, including aptitude, imagination and creativity; desire to share information, participate in a team and focus on the goals of the organisation
CIPD, 2006	The skill, experience and capacity to develop and innovate, that is owned by individuals
Gates and Langevin, 2010	HC refers to the knowledge, competencies, experience, and creativity of the workforce as well as their attitudes and motivation. By structuring the management and sharing of this knowledge, the organisation can develop key competencies that are difficult to imitate, and thereby gain a sustainable competitive advantage.
Santos-Rodrigues et al., 2010	It is the value of the knowledge and talent embodied in the people who make up the organisation. It represents the knowledge, talent, competence, attitude, intellectual agility and creativity.
Choudhury and Mishra, 2010	Human capital refers to individual's knowledge, skills, and expertise. It is the ability of the employees to do things that ultimately make the company work and succeed.
Unger et al., 2011	skills and knowledge that individuals acquire through investments in schooling, on-the-job training, and other types of experience

appeared. A critical analysis of the evolution of the concept of "human capital" in recent years has allowed us to present the transformation of its definitions in chronological order (Table 1).

As can be seen from the table presented over the past 20 years, the fundamental understanding of the essence of human capital has not undergone fundamental changes. As at the end of the last century, the interpretation of human capital is based on experience, knowledge, skills and competencies.

The difference consists more in the presence or absence of an indication of why, for what purpose and how this knowledge, skills, etc. are used.

In our view, the absence in the treatment of the target orientation of the use of human capital significantly narrows, if at all does not distort its understanding. Indeed, if we regard human capital as "the professional knowledge, experience and opportunities for innovation that an individual possesses" (Institute for Personnel and Development), then it is only the competence of an individual employee who can not be used in the work process, create added value and, therefore, not to be capital. Therefore, the reflection

of the targeted use of the knowledge, skills, competencies of individual workers, leading to the formation of collective knowledge and the collective result of work is a necessary component in determining the essence of human capital. It is the "variable value" of such a definition, which changes with the development of socio-economic relations and the environment of business functioning.

At the same time, the following target-oriented options take place: economic value for business, better solutions, facilitation of "creating personal, social and economic well-being", success in the new economy.

From our point of view, and in this we are in solidarity with S. Gates and F. Langevin, since human capital is an indisputable and unique competitive advantage of the enterprise, its rational use should be aimed at increasing the competitiveness of the enterprise.

**Conclusions.** Thus, in summarizing the various interpretations, the authors believe that under the current conditions the essence of human capital is formulated as follows – human capital is the inborn and acquired as a result of self-education,

training in the workplace and other experience, knowledge, ability, skills and motivations of the individual, which constitute a competitive advantage of the organization and ensure the effective achievement of its financial, economic, market and social goals.

Understanding the essence of human capital, its purpose, are the bases for the development of theoretical foundations and the formation of a rational system for managing human capital. It should be noted that this issue is not given enough attention in the literature, let alone in practice. As a rule, there is an absolutely obvious statement of the need to manage human capital. At the same time, the theoretical foundations of human capital management are not fully developed, and the methodological tools for such management are practically non-existent. This is not surprising, since the ambiguity, flexibility and dynamism of human capital, differences in the needs and motivations of individuals and their variability, alternatives in choosing a workplace and other features cause the increased complexity of this problem and the impossibility of its unambiguous solution for a long period of time. Tools and components of human capital management require further analysis and systematization in order to set up a strategy of human capital management.

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