

Eurasian  
Research Bulletin

# Human Capital: Essence And Role in Increasing Organization Effectiveness

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## ABSTRACT

The article examines the concept of human capital and its structural elements from the point of view of various authors. The authors studied the characteristic features of human capital that distinguish it from other types of capital. The features of the organization's human capital, methods for its assessment have been studied, and the role of human capital in increasing the organization's efficiency has been determined. It was revealed that the effectiveness of human capital management depends on the mobility of labor resources. As a result of the study, the author presented a model for managing the human capital of an organization

### Keywords:

Human Capital, Organization, Efficiency, Formation, Management, System

**Introduction.** The first place in economic and social sciences has always been occupied by human capital, i.e. his creative qualities, abilities, powers, with the help of which he improved himself and the world around him. This is due to the accelerated development of the material and technical base in production, which is associated with the industrial revolution - all this overshadowed the problems in the development of man and his productive abilities. As a result, for many years, human productive abilities were regarded as one of the quantitative factors of production. At the same time, the main task was only to qualitatively and successfully combine labor, working capital and fixed capital.

**Literature review.** The term "human capital" itself first appeared in the works of economist Theodore Schultz (1902-1998), who received the Nobel Prize in 1979, proposing the definition: "All human abilities are either innate or acquired. Each person is born with an individual set of genes that determines his innate abilities. We call the valuable qualities acquired by a person, which can be strengthened by appropriate investments, human capital" [1]. In his writings, he was interested in the difficult situation in underdeveloped countries and put forward the version that improving the well-being of poor people depended rather on knowledge.

M.M. Kritsky characterizes human capital as a special form of human life activity, assimilating two specific forms (consumer and production) [2]. The next scientist, G. Becker, after T. Schultz, translated the concept of "human capital" at the micro level, in which he determined that human capital in an enterprise is the totality of human skills [3].

The concept of human capital can be considered in both a narrow and broad sense. If we consider it in a narrow sense, one of the forms of human capital is education. It was called human because this form becomes part of a person, and it is capital because it represents a source for future earnings and satisfaction, or all combined.

In a broad sense, human capital is formed through investments (long-term investments) in one specific person in the form of costs for education and training of an employee for an enterprise, for health care, migration, as well as for searching for information about prices and incomes.

Being part of total capital, human capital can be represented as a combination of its elements, that is, it has its own internal structure. Many economists form the structure of human capital based on the cost principle, based on the variety of types of investments in human capital.

So, I.V. Ilyinsky identified the following components: the capital of health, culture and education.

F. Neumann, in turn, considered the combination of the following elements to be the main components of human capital: cultural and ethnic characteristics, qualifications, general and professional education [4].

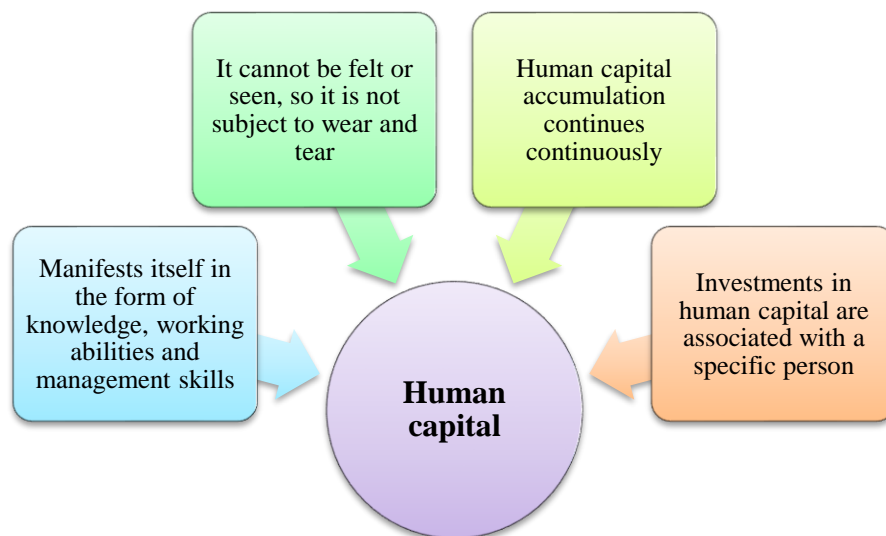
E.V. Vankevich identified such components as education and professional training, health status, driving needs, motivation, and values [5].

**Research methodology.** Analysis, induction, deduction, correlation, systematic and complex approaches were used to cover this topic.

**Analysis and results.** If we consider human capital by the degree of generality, then in its structure we can consider such approaches as individual, collective and social.

Individual and collective are considered at the micro level, as the human capital of a single group of people and an individual, united by the following characteristics: the company's team, members of a socio-cultural group, etc.

The social component is considered at the micro level and represents the entire human capital accumulated by society, which is part of the national wealth, a factor of economic growth, and also a strategic resource.



**Figure 1. Features of human capital**

Yu. G. Bychenko put forward the most generalized approach to determining the components of human capital [6].

In his opinion, human capital can be divided into 2 types:

- ✚ biological human capital (the level of health of the population), which in turn is divided into 2 parts: hereditary and acquired;

- ✚ cultural human capital, which consists of a person's linguistic and cultural competence, wealth in the form of knowledge or ideas (a set of moral qualities, skills, abilities, intellectual abilities).

Considering human capital as one of the main resources of the economy, we can highlight its main characteristic features that distinguish it from other types of capital:

- ✚ Human capital can be either increased or decreased over time. Capital can be increased both by the individual and by the external

environment, and the decrease occurs due to physical and moral wear and tear, so it can be depreciated;

- ✚ the functioning of human capital depends on the person himself and his interest in it;

- ✚ human capital is one of the most important factors in the economic growth of the state;

- ✚ human capital differs from physical capital in terms of liquidity;

- ✚ the direct income that a person receives is controlled by him, regardless of the source of investment;

- ✚ investments in human capital are long-term capital, while the income received by a person completely belongs to him and he manages it independently.

There are also some separate forms of human capital that reveal its essence and main characteristics:

- ✚ living capital (a set of skills, experience and skills) that the organization uses;
  - ✚ inanimate capital (human knowledge in its physical expression);
  - ✚ institutional capital (administrative and management authorities that are involved in developing the effective use of human capital).
- Now it is necessary to consider the concept of “organizational human capital”.

The human capital of an organization represents the cost of the annual volume of physical and intellectual living labor, its main and production workers, employees, junior personnel, administrative and managerial staff in normal conditions of production activity with its regulatory and design capacity fully loaded.

The human capital of an organization can be represented as a system that consists of the following components:

- ✚ intellectual capital includes “knowledge capital”;
- ✚ structural capital consists of corporate culture, management system;
- ✚ social capital represents social connections, etc.;
- ✚ client (market) capital is a system of mutually beneficial relations between an enterprise and its clients.

The human capital of an organization can also be considered as a special type of investment, improving quality, improving the functioning of the workforce, and the totality of costs for the development of human reproductive potential.

To assess the human capital of an organization, the following methods can be used:

- ✚ quantitative assessment of the stock of knowledge, skills, and abilities acquired by human capital;
- ✚ Special Skills;
- ✚ economic assessment (assessment of income generated by human capital);
- ✚ by the method of investing in human capital (health capital, education capital and economic assessment);
- ✚ assessment of human capital at macro

and micro levels;

- ✚ integral assessment (natural and monetary indicators for assessing human capital);
  - ✚ matrix of social accounts (macroeconomic assessment of human capital).
- The object of human capital is knowledge of a social and general educational nature, accumulated experience and skills.
- The subject of human capital is the relationships that arise in the process of reproduction of human capital, ensuring increased competitiveness.

One of the most important aspects in the theory and practice of the functioning of an organization in modern conditions is human capital, and without it no organization can exist.

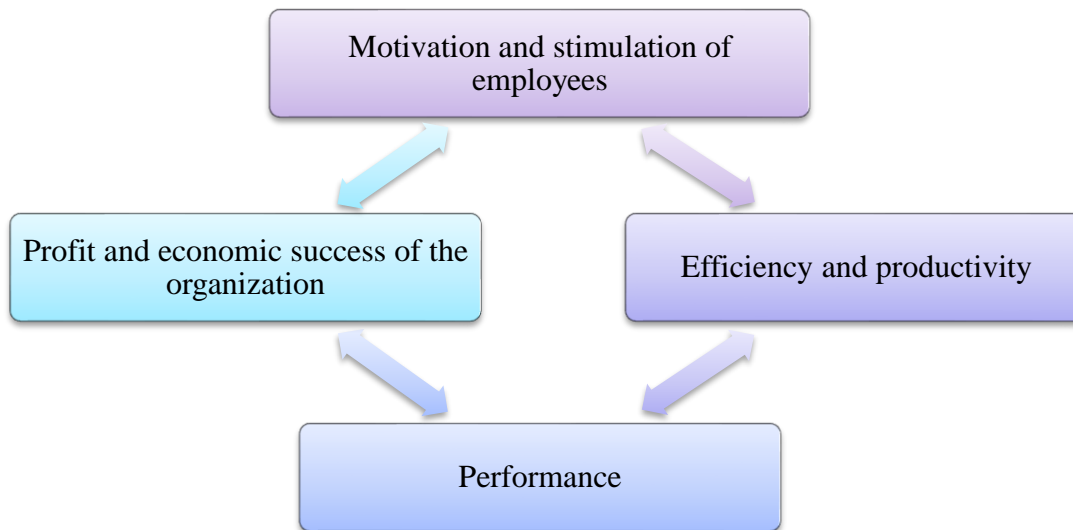
The human capital of an organization determines the possibility of efficient use of production, which in turn affects the competitiveness and price of the enterprise. The use of human capital in an enterprise requires new approaches to management: leadership, motivation system, priorities, management style, etc. These factors represent human capital as a means of influencing socio-economic processes.

The effectiveness of the economic activity of an enterprise depends on the effectiveness of the use and management of human capital. Consequently, the enterprise faces a certain question of how to manage human capital in order to take measures to improve the efficiency of its use based on the results of the analysis.

In accordance with this, the management of an organization's human capital can be based on the use of a model of cyclical interdependence of employee motivation and the results of the organization's economic activity. This model is presented in Figure 2.

The formation of a human capital management system based on this model allows, based on the results of its use, to carry out an actual assessment of human capital to determine the economic efficiency of the organization.

Based on the human resource management model, motivation and simulation of personnel plays an important role in increasing the efficiency of the organization.



**Figure 2. Human capital management model**

The implementation of motivation is as follows:

- ✚ creating conditions that meet needs;
- ✚ providing remuneration for the required results;
- ✚ creating confidence among staff in achieving their goals;
- ✚ creating the impression among staff of the high value of rewards.

The process of using various incentives to motivate people is called incentives [7]. Stimulation plays an important role in an organization. It is fundamentally different from motivation in that stimulation is one of the means by which motivation can be achieved.

Motivating and stimulating employees have a significant impact on the development of such important characteristics of their work activity as quality of work, productivity, diligence, diligence, perseverance, conscientiousness, etc.

Let's list the general incentives that encourage a person to work better: money, respect, self-affirmation, a sense of belonging to the organization; pleasant work atmosphere, praise, flexible work schedule, self-awareness as a team member, career, remuneration, bonuses, trust from management, feeling confident in work, recognition of merit.

The enterprise human resource management model becomes effective if the specific features of the organization, as well as the workforce in general and individual workers in particular, are taken into account. In this case, the enterprise

will receive a positive economic effect in the form of increased labor productivity, and subsequently an increase in the final financial result.

The effectiveness of the formation of a human capital management system depends on its contribution to achieving the organizational goals of the organization. The purpose of this system is to achieve efficiency and competitiveness of the organization. In other words, human capital is not only an object of management, but also a means of solving important problems of the company's development, i.e. control tool.

In the formation and development of human capital, it improves the management mechanism and allows you to successfully solve various problems of scientific and technological progress, increasing competitiveness, using the latest modern technologies, as well as increasing efficiency and productivity.

The effectiveness of human capital management also depends on the mobility of labor resources, that is, carriers of human capital. The mobility of human capital contributes to personal wage growth. Due to the fact that science and technology are constantly being updated, this requires appropriate knowledge and readiness to make decisions, and a creative approach to one's business.

Globalization has a sufficient impact on production processes and the structure of

employment of the population, the movement of the population in search of decently paid work.

**Conclusions and offers.** In order to properly form human capital, an organization needs to be based on three basic principles that should form the basis of its human capital management strategy:

1) hiring the most qualified specialists, or training our own highly qualified specialists within the required areas;

2) in order for the professional development and consolidation in the organization of qualified, experienced workers who have the necessary characteristics and skills to work effectively in a team, it is necessary to create the necessary working conditions;

3) it is necessary to improve the human potential management system as a whole.

One of the biggest advantages of human resource management is the virtualization of this area. With the constant growth of information technology, organizations are finding the most advanced methods to manage the workforce of an organization.

Organizations are adopting best practices (cloud services) in human capital management, which leads to improved organizational performance. Best practices include: job security, skills development and selective recruitment, comprehensive training, information sharing, salary increases. This ultimately results in benefits for the organization.

Human capital management creates a free flow of information between superiors and subordinates, that is, it ensures the importance of developing the personality of employees.

To manage human capital, it is necessary to have a full set of its characteristics. However, it should be noted that the set of characteristics is very difficult to evaluate correctly.

By purposefully changing these characteristics, it is possible to manage human capital, form and change their quality. In this case, it acts as an object. But it is also a means of achieving set objectives, that is, an element of the management mechanism.

Thus, human capital occupies a leading place in the competitive advantages of an organization, and this means that analysis and assessment of

personnel is the most important condition for successful leadership.

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