INVESTMENT IN HUMAN CAPITAL – DETERMINANT FACTOR IN CREATING VALUE WITHIN MODERN COMPANIES

Dalia SIMION, Daniel TOBĂ, Dănuț BARBU
UNIVERSITY OF CRAIOVA

Abstract:
Human capital is the source of strategic innovation and renewal for organizations. The company's market value is given by its financial and intellectual capital. Intellectual capital is divided into two: human capital – represented by the employees' competences, abilities and creativity and the values, philosophy and the company's culture and structural capital. Human capital is the company's soul, yet this does not represent their property. Today most managers admit the economy's strategic implications based upon knowledge and they understood that skilled and motivated employees are key factors for the success of a company's transactions that wants to remain competitive in the new type of economy that is coming faster and faster. At the end of 80's, the pursuit of dynamic and sustainable advantages determined the managers to complete the company's analysis of external competition with the evaluation of its internal competences.

Key words: *human capital, capital uman, valoarea firmei, mediu competitiv global, creare de valoare, strategie*

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Introduction

Taking into consideration the economy's globalization and the markets' liberation, the evaluation of the impact that human capital has upon creating value within the companies confronted with competitive pressures, stands for a priority for each modern company.

Competition represents a main factor within the development of an economic society. For economic agents, competition stands for a mobilizing factor that will certainly lead to adapt to a business environment and eventually to progress. Competitive strategies have the role of placing the enterprise into an advantageous position within a reference market. Through distinctive competences, the companies of all the economy's sectors strive to clarify a competitive advantage as compared to competitors and to register superior financial performances.

The objective of competitive strategies is represented by the increase of the enterprise's competitiveness. The company's competitiveness consists in reaching a unique and sustainable position within the activity sector. The method involved in reaching this level of competitiveness makes the difference among companies.

The abundance of production factors leads to comparative advantages. Nevertheless abundance can also lead to waste. The rarity of resources offers incentives for an efficient usage and innovation and can also lead to competitive advantages. Static competition in which success or failure were determined by the endowment with production factors, turned into a dynamic competition, whose motive factors – technical progress, new openings of the markets and modern patterns of management – modify or even permanently erodes the competitive advantages.

Among the most important factors concerning economic agent (the theory of transactional costs' economy, the theory of the company based upon resources, the theory of agent), the most recent one is that of the company based upon knowledge. This derives from the theory of the company based upon resources according to which

the company is a collection of productive attainable and unattainable resources, the company's development and performances being assured through their usage. The theory of company based upon knowledge is founded taking into consideration the following premises:

- knowledge is achieved by the company's components, that become their depositary – in the case of implicit knowledge;
- the resources represented by knowledge tend to get an essential role within the organization;
- production is obtained through the usage of numerous types of knowledge;
- the competitive advantage is the result of knowledge combination and usage

The company's theory based upon knowledge is naturally connected to the context of the economy of knowledge, term that resulted from the recognition of the decisive role of knowledge and technology within long-termed economic increase.

In the new economy, the capitals' markets turn more and more into labor markets. These together with those of people's circulation become the essential element within the current competition on global markets of knowledge.

There appear new markets that include: the education, science, research and innovation markets, the intense cognitive products' markets and those of arts and unattainable goods.

As far as the resources of knowledge are concerned, these can be: knowledge mainly based upon technology and explicit or tacit knowledge, based upon people, taking the form of human capital. Between the two categories of knowledge is a permanent balance that assured the organization's existence.

Totalizing the knowledge, abilities and capacities of the fellows that work in a company, their creative and innovator potential, the organization's human capital based upon knowledge is the key element of its competitiveness, its positioning and value on the market, as well as its survival. In order to perform on market, the organizations base upon their human capital more than upon the physical or financial one. It is nevertheless the aspect that differentiates the intense cognitive organizations from the rest. Within the economy of knowledge a great accent is laid upon the knowledge assimilated by the human being. He is the bearer of the tacit knowledge. Thus one can say that the main stimulating factor within the process of creating value is represented by tacit knowledge that consists in human beings.

Human capital is the source of strategic innovation and renewal for organizations. The company's market value is given by its financial and intellectual capital. Intellectual capital is divided into two: human capital – represented by the employees' competences, abilities and creativity and the values, philosophy and the company's culture and structural capital. Human capital is the company's soul, yet this does not represent their property.

The different conceptions that concern value and changes that appear within companies lead to a new definition of value. **Value** is not anymore defined as a single number, thus it comes from different sources, fact that requires as necessary its balancing with quantitative and qualitative data and its observing both from the financial perspective as well as from the non-financial one. Data can refer to value contribution at the tactical level (implemented activities) or at the strategic level (the investment profitability in human capital).

Value must be determined using different periods of time and not necessary a certain moment. It must reflect the systems of values that arouse interest among the groups of interests associated to the company. All data referring to value must be gathered from reliable sources, using efficient methods whereas value must be orientated towards action, urging the fellows to make adjustments and changes.

The process of value calculation must be the same irrespectively of project, defending the necessity of some common standards, so that the obtained results should be comparable. For each company, the primary activities such like sales, production or post-sale delivery services are directly connected to value creation associated to a product or service offered by the company. Other activities, such like human resources, the informatics and administration ones, are generally viewed as a support in improving the efficiency of primary activities and thus indirectly adding value to the company's products and services. In most cases, these support activities, including the human resources, are being considered "cost centers", due to the way that managers understand them. Due to the fact that it is difficult to associate specific values to these activities in terms of attainable advantages, most managers do not use evaluation criteria of efficiency for these activities. In the 80's, a very influent thesis belonging to Rappaport (1986) gave birth to a new approach concerning the company's evaluation, named the value analysis created for shareholders, that aims a new way of understanding value, using the concept of net actualized value. The key hypothesis of the value analysis created for shareholders is that a company's current value is given by the net value of its future cash flows, actualized at the capital's cost that reflect the company's level of risk. This approach outlines a frame that allows the connection between managerial decisions and strategies of creating value and at the same time focuses the managers' attention upon the way the company's activities are administrated and planned with the final purpose of creating value for shareholders, as well as achieving advantages for the interests groups associated to the company. The managers' role within this frame is that of taking decisions that are able to influence the value determinants that can have the greatest impact upon the created value for shareholders. These determinants include the sales' rate of increase, the level of profitability, the investment in fixed capital, the capital's cost and the duty's quota.

In a very simple manner, this frame assists managers to focus on the activities generating value and helps them to take into account more productive activities on long term as far as creating value is regarded, as compared to the activities orientated towards getting short-termed profit.

This apparent contradiction between long-termed investment and getting short-termed performing results was for a long time the battle field among financial managers, interested in the short-termed results and strategies that formulate long-termed action plans. A method pf exploring this contradiction consists in observing the way the capital market interacts at the company's actions that favor long-termed results to short-termed results' detriment, starting from the idea that the process of allotting capital in each company is situated under the magnifying glass of the capital market, with or without the understanding of this process by the company's management. The contradiction between short term and long term turned into reconciliation between the value created for shareholders and the company's competitive advantages. These two dominant business objectives have at the foundation a common concept that is the long-termed profitability concept. Productivity – understood as the value of the result produced with a unit of work or capital – stands for the foundation of creating competitive advantages on market and the factor that stirs the capital market when evaluating the company's shares – as long as there is admitted that the shares' price includes a long-termed prevision regarding the company's capacity of creating value over the its producing cost. Having these conditions, if the competitive advantage that a company can have at a given date is included in the action's price, then there is not any reason to expect that the shareholders should get a higher profitability over the one expected on the market. At the same time, the unexpected changes in the investors' perceptions concerning the company's future perspectives will generate levels of profit situated over the increases of the shares' prices. As a consequence to this, when a company increases the value

created for shareholders through the achievement of investment with profitability over the cost of capital adjusted to risk, the shareholders will get more than the profitability requested on the market unless the company's performance was not entirely anticipated by the share's price at the acquisition moment. Against the myth according to which managers should leave behind the standard pattern of creating value for shareholders with the purpose of achieving investment that lead to creating competitive advantages for the company, the myth is being based on the incorrect hypothesis according to which the market reacts negatively to the long-termed investment that can represent a drain of profit and cash flows in a short period of time. As we mentioned above, the empirical evidence supports the idea that any strategy that is destined to promoting the company's competitive advantages, finally has to pass the test of sustainable creation of value. At the same time, nevertheless, the process of creating value depends on the company's ability of transforming these advantages into sustainable cash flows. Taking into consideration this situation, the managers that can succeed to perceive the activities from the human resources domain as investment, not as costs and that can understand and use the innovating criteria for a untraditional frame, can effectively create a competitive advantage for the company and can generate in an innovating manner increase and value for all the interests groups.

Today most managers admit the economy's strategic implications based upon knowledge and they understood that skilled and motivated employees are key factors for the success of a company's transactions that wants to remain competitive in the new type of economy that is coming faster and faster. At the end of 80's, the pursuit of dynamic and sustainable advantages determined the managers to complete the company's analysis of external competition with the evaluation of its internal competences.

The change of conditions on the market reduced the importance of traditional sources of competitive advantages such like licenses, the scald economies, the access to capital and the market's settlements. Nevertheless this does not mean that such assets are not valuable any more, they are not in the position of offering a company the desired differentiation, within a global economy characterized through innovation, rapidity, adaptability and reduced costs. One can say that this situation came to this point due to the fact that resources and competences will be copied more and more difficult and in this context the perspective upon the key-competences pointed the managers' attention towards the importance of creating knowledge and the learning process for creating and maintaining competitive advantages.

In such an economy, the key-competences and the employee's capacities that support the development of new products, the offer of performing services to the customers and the implementation of organizational strategies become relatively more influent.

Moreover, almost two decades ago, companies realized the fact that employees, irrespectively of the level they were situated within the company, were not prepared for the new places or work that requested a good level of knowledge. By definition, the strategies based upon competence are dependent on human beings, because knowledge and expertise determine the development of new products and the personal relations with customers are critical for a flexible answer of the market at the company's shares. As a result, people started to be considered as a key strategic resource and the strategy started to be redirected more and more towards an approach that lays the accent upon human resources. The implications of these transformations are profound for managers: first of all, the matters concerning human resources must be moved from the inferior hierarchical levels towards the superior ones inside the company and moved as well in the company's strategic priorities list; secondly, and more significantly, the process of strategic traditional planning are forced to pass through a change that includes the

evaluation systems of calibrated performance from the financial point of view and the remuneration one that should recognize the strategic importance of human resources, beyond financial resources. As the number of companies that understood the strategic importance of human resources increased, there appeared the so-called "war for talents".

Human resources pass through a process of reconfiguration of their role and the managers in the human resources domain are key actors in the wording, development and implementation of the company's strategy. The problems are still acute, the companies being confronted with supplementary problems such like the demographic landscape dominated by the retiring generation "baby boom" and the reticence of the young generation of entering the labor market in the developed countries, on one hand and the doubts concerning the presence of talents in more emergent countries on the other.

There are three external factors that force the organizations to approach the talent's matter more serious. Among these we can mention:

- demographic changes;
- globalization;
- the employee's ascension based upon knowledge

At the same time managers are not yet disposed to give up the reactive manner adopted up to present – for instance through hiring staff in sales and marketing only when there occurs a launching of new products. In their vision, the perspective of short term stressed by shareholders and analysts from the investment domain distracts the management's attention from long-termed matters such like the access to talents and career development.

Nowadays, managers confront with a new reality: a more and more competitive environment, in the conditions in which there are fewer and fewer people with the necessary talent and education. In many cases labor is unqualified and the satisfaction of the required staff becomes a greater challenge for the companies' management. Corporations start to realize that people represent the only "dynamic element" and the professionals in the human resources departments should evaluate with attention the objectives that they have and should also analyze the content of the added value of the human resources' activity. Nowadays, one of the important abilities of any professional from any domain is to demonstrate the impact and value of his activity in the organization that he belongs.

Human resources managers are more and more interested in showing the contribution that investment in human capital has in the increase of the company's value. The interests groups associated to companies – shareholders, managers, employees etc – are more and more interested in results, often seeking for monetary value of the actions and initiatives' results that view human capital. From this reason, the specialists in human resources try to evaluate the impact that their projects of investment in human beings can have upon business, determining the profitability of the investment or making measurements of the unattainable assets' value. Thus, the measurement in financial terms of the created value by specialists in human resources and the possibility of reporting the obtained results, methodically and credibly, become critical elements for the change of perception that the people's development is a problem strictly connected to the human resources department.

Despite the increasing acknowledgement of its importance, the human resource management is rarely analyzed in the moment when the company's performance or its competitive position is evaluated.

Traditionally, the performance of the company or its businesses units is measured by financial indicators such as the efficiency of the investment, the benefit per share and the net incomes. Unfortunately, for the human resources department, these instruments

are not suited to encourage the development of human resources and the proper and efficient use of the employees' abilities.

Three major reasons are responsible for the improper use of the financial and accountancy indicators in the human resources case:
(1) human resources' performance is pointed out through financial and accountancy reports only in terms of cost, because the employees are often seen as costs and obligations instead of valuable assets of the company;
(2) the measurement instruments of financial and accountancy performance such as the efficiency of the investment or the benefit per share encourage the short term action of the company, or the neglect of the employees training is sadly one of the best examples for this case;
(3) the traditional accountancy information is an old instrument of remote control, they allow the identification of the factors that determine the performance of the company's operations but they are not capable to offer a corrective feed-back or to stimulate constant improvement or to perform prevention programs which are useful to human resource management.

From this perspective it is obvious that human beings can no longer be seen as "human costs" supported by the company, but they must be studied as efficiency within the company's investment in human resources. Even though human capital can be found in the employees' soul and mind, their value and efficiency depends on the way in which the company, through management and employees relation arrangement, facilitates its proper use. Representing a combination between the knowledge, qualifications, capabilities and innovation spirit of the personnel, human capital defines the whole intangible resources hold by the employees. These resources consist in three major areas:

1. competences (experience, talent, capabilities);
2. attitudes (motivation, values, believes, opinions);
3. intellectual agility (the ability to decide, to solve problems in complex situations, to innovate).

Thus the development and capitalization of human resources stand for a basic responsibility of modern management. Yet unlike material assets, they are not included in accountancy, because they are not in the company's property and their evaluation in financial terms requests subjective criteria. Nevertheless, the financial wording of human potential of a company is a justified step, because without it one cannot appreciate the company's market global value and the real quality of the financial economic performances obtained by it. Any attempt of the human potential evaluation is strongly influenced by the density and the quality of the inter-human relations inside the company as well as the management patterns practiced inside of it. More exactly, a good estimation of the fellows' value for a business organization cannot be achieved without the organization's value estimation for fellows.

A first step in the evaluation of a company's human capital is represented by the achievement of distinction between the involved social costs and the investment value in human capital. This increases only when the company uses intensively the employees' competences and capacities and when a great number of employees get useful knowledge that they work with.

The problem of evaluating human capital is difficult because many factors involved cannot be expressed with precision and in the exact terms. Thus any step in this way must take into consideration that the renewal, development and innovation potential stand for the foundation of the company's competitiveness. On this foundation, the human capital is the ingredient that makes the connections between the company's internal organizational process and the system of relations that it has with the market. The company's financial capacity is not but the effect of this intermediary.

That means that people are the one that put into circulation, exploit and improve the company's technologies, stocks and markets in order to improve more and more its financial capacity.

The concept of human capital can be understood from multiple perspectives and can have different forms:

- the leadership capital – the executive managers' performance and credibility;
- the structural capital – corporative government, business structure, process and technology;
- the labor capital – external permanent employees, suppliers, business partners;
- the cultural capital – ethics, values, reputation;
- the intellectual capital – the management of innovations, inventions and knowledge

This dimension of human capital with major impact upon creation of value is represented by the intellectual capital.

Knowledge and intellectual capital are the company's hidden unattainable assets generating competitive advantages through a good administration of this type of assets.

The essential characteristics of intellectual capital can be thus synthesized:

- intellectual capital is the sum of everything known by the people in a company, allotting it competitive advantages on the market;
- intellectual capital is recognized as being a value in most organizations, but this is not measured and evaluated in any other financial declaration of the organization, except for the market value reached by the organization;
- intellectual capital stands for the intellectual material that had been formalized, captured and put into value in order to produce more valuable assets. It is given by that knowledge that can be turned into values.

The existing patterns of evaluating the human and social capital represent suggestive illustrations of dilemma: what it is really important can not be evaluated.

The intellectual capital represents an important source of competitive advantages and that's why it must be developed through corresponding investment. Assuring a high economic profit of these assets will generate the organizations' success. Though, economically speaking, these assets behave different from the physical or financial ones. The great particularity of human assets consists in the fact that they are capable or self-organization, self-leadership and self-perfecting. It is obvious that the increase of their productivity is not possible with the help of the methods used in the case of physical assets. The key consists in the human and organizational development which will attract the reviewing of the way of understanding and representing the organization's economy.

Organization should be viewed as a "*living organism*", strongly connected and integrated into the ecosystem and for which should be discovered new indicators in order to appreciate its health state.

Unquestionable, the major objective of the financial management will be the maximization of the organization's market value, taking into account the cash flows achieved or viewed, but more and more the base of these flows of liquidities will be found in the unattainable assets of the economic organization.

An interconnected problem will be represented by the remuneration of the unattainable assets that include not only the investors of financial capital but the owners of unattainable assets as well. Certainly there should be reviewed the attitude according to which: the company exists in order to enrich its owners.

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