

# A REVIEW OF THE ROLE OF HUMAN CAPITAL MANAGEMENT PRACTICES IN ORGANIZATION

Dr. Sneh Lata\*

*Associate Professor in Economics  
Desh Bandhu Gupta Government College, Panipat (Haryana), India*

*Email ID: slata0162@gmail.com*

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## **Abstract**

*Human Capital Management (HCM) is a valuable asset for any organization. This involves effectively managing individuals, their capabilities, and their skills within the organization. Human Resource (HR) professionals utilize various HCM practices to enhance organizational performance and the development of the workforce. Effective Human Capital Management is essential for any successful organization. It creates a connection between management and staff, allowing for the achievement of organizational objectives. In India, human capital management plays a critical role in the growth and development of the nation. This review paper explores the various aspects of Human Capital Management, highlighting how it contributes to organizational performance and national growth. The study focuses on the application of human capital management in the company, analyzing how HR professionals can successfully manage the skills, experience, and talent of employees. The primary objective of this paper is to examine the potential benefits or role of human capital management practices in organizations.*

## **Paper Identification**



\*Corresponding Author

## **INTRODUCTION:-**

The management of human capital is a complex task that requires HR specialists to possess specialized skills. Human capital management plays a crucial role in attracting, recruiting, and retaining top talent in the organization. It is instrumental in strategic planning, policy-making, and implementation. By adopting effective human capital management practices, organizations can gain a competitive edge and adapt to new technologies. Improving employee productivity and performance should be a top priority for any organization, as it is the main criterion for achieving superior performance.

## **THE CONCEPT OF HUMAN CAPITAL:**

The concept of human capital is widely agreed upon by scholars as a combination of individual abilities, education, skills, knowledge and experiences. Education is considered to be the most crucial element of human capital. Management of these skills in an

organization is known as human capital management, which includes the hiring and retention of talented key personnel. Human capital has gained significant attention in the business sector in recent years and plays a crucial role in organizational performance and competitiveness. By improving the skills and knowledge of employees, organizations can achieve their targets and attain long-term competitive advantage (Tech Funnel 2020).

Effective competition among companies can be achieved by implementing the principle of human capital theory, which considers human capital as a core element in improving organizational assets and enhancing employee efficiency as a sustainable competitive advantage. Human capital is significant in enhancing productivity and profitability of an organization. The term 'human capital' was first defined by A.W. Lewis in his article titled 'Economic Development with Unlimited Supplies of Labour' in 1954, where he introduced the dual sector model. Gary Becker further elaborated the concept of human capital in the economic literature in 1996. Human capital is different from financial and physical capital and refers to the stock of skills, knowledge, health and creativity possessed by an individual (Becker 2002).

#### **ROLE OF HUMAN CAPITAL MANAGEMENT PRACTICES:**

According to Young (2006), disseminating information about a company and its products improves its reputation and customer satisfaction. Training employees is crucial for satisfying customers because well-trained employees can better communicate information about the company and its products. This leads to better customer satisfaction and improved company performance. The training program also provides intrinsic motivation and facilitates learning of new technologies by employees. Employee promotion is an effective method for an organization to achieve its goals and succeed in the market. Company promotion policy can attract and retain talented employees.

Hartline (1996) highlights that human capital practices enhance productivity and reduce labour turnover rates. Managing human capital involves viewing employees as an investment rather than a cost to the organization. Employees are the key strength for a business to achieve its goals and succeed. The success of human capital management lies in identifying elements that improve human capital and provide better employee and customer satisfaction. Human capital management is crucial in every organization and is especially essential for the growing business sector in India.

Human capital management is a cutting-edge approach for maximizing an organization's potential through its employees. According to Hartline (1996), effective human resource planning and execution are critical outcomes of human capital management. It is essential to have a highly skilled HR professional to foster innovation and creativity among an organization's employees. All aspects of an employee's life within an organization are covered by human capital management. The economic growth of a nation is also influenced by human capital management. The government's efforts to increase the proficiency levels of the populace contribute to higher performance and economic growth. Every organization's progress and a nation's economic growth depend largely on improved human capital.

Thus, human capital refers to an organization's employees' experience, knowledge, abilities, attitude, values, morale, and motivations. Managing human capital effectively can lead to improved company performance, higher customer satisfaction, and reduced labour turnover rates. The success of human capital management lies in viewing employees as an investment and providing them with the necessary skills, incentives, and opportunities to foster creativity and innovation.

#### **OBJECTIVES OF THE STUDY:**

- To discuss about the concept of human capital.

- To highlight the practices of human capital management.
- To analyse the framework of human capital management.

## RESEARCH METHODOLOGY

This present study is based on secondary sources of data collection. Most of the data has been taken from various journals, articles, magazines and online websites available. This is a review paper based on theoretical framework of human capital management practices in the business sector. To pace the study the author has used some observational facts related to human capital management practices in different industries worldwide.

## A REVIEW OF LITERATURE:

Human capital is an essential resource for organizations to improve their performance by applying human resource management practices appropriately. Many authors have identified that human capital practices are important for organizational performance and sustainability in the long run. The literature contains various reviews and studies on human capital management, some of them are cited as under:-

**Shawn Kent (2001)** conducted a study on IT professionals and concluded that training creates a learning and knowledge-sharing environment, and career development is necessary for employees to feel satisfied and to foster a healthy working environment. Innovative and creative workforce is vital for IT firms, which can be achieved through career development and training practices.

**Mark Stam (2001)** highlighted in his study that while the development of training programs for employees is important, the role of the employer in providing training is equally significant. Employers must use appropriate methods to assess employee performance, as training programs are cost and time-intensive. Failure to ensure the success of the program can lead to high costs and wastage of time.

**Stevens (2002)** explained in his study that advertising and promotion policies can attract talented people to the organization and help retain them. The strong image of the company can also attract the best talent available in the market. The mentorship program is also an essential practice of human capital management that can help identify the best and most skilled employees in the organization. Training can inspire future leaders and create a better relationship between superiors and subordinates.

**Mary Holmes (2002)** pointed out that most organizations rely on external sources of training. Many organizations provide training for IT professionals, and companies now create and design their curriculum for the training programs. The external source of training is a cost-effective and less time-consuming process.

**Punam Sahgal (2003)** explored the need for innovative and creative employees in the IT sector. Training and education programs can develop employees and enhance the performance of the organization.

**Saidkingir (2010)** studied various aspects of the business sector that facilitate health and medical facilities, transportation, and housing for employees. Facilities other than salary provided by the employer develop trust and intrinsic motivation among employees, reduce the turnover rate of the company, and are essential for human capital management. Extrinsic and intrinsic motivations are both important for employees. Rewards and recognition are vital factors in human capital management.

**Shazia Khan (2011)** identified in her study that employee motivation affects their performance in the organization. Employers must recognize their employees and provide rewards for their achievements to create a sense of belongingness. HR managers should improve their skills for maintaining effective strategic management performance. Regular rewards

and recognition encourage better performance in the workplace, and feedback plays an essential role in this.

**Kala (2012)** discussed numerous components of human capital management, including training programs, enhanced employee services, and customer feedback. All of these factors are crucial for an organization to achieve its objectives and deliver customer satisfaction. Employees become self-assured and driven via training programs. The right human capital management practices can boost staff productivity. Human capital management is particularly useful for turning around failing enterprises.

**S. Chandra (2013)** stated in his study that collecting comments and complaints from employers and employees can break down obstacles. Training and education, leadership communication strategy, and reward systems have a direct impact on the productivity of employees and a secondary impact on their quality of life and social standing. Human capital management has the potential to boost the company's reputation.

**Weham Peter (2014)** pointed out that any successful business relies heavily on its human capital, and effective management of human capital is a crucial first step to gaining an edge in today's market. Human resources and human resource development are crucial to every successful business. Every employee of the company gains from the training and development program, improving the company's performance and the knowledge, skills, and morale of the employees.

**Hamid (2017)** concludes that in the current global economic scenario, technology advancement practices are covered under the modern notion of human capital management. He highlights that everything, including education, training, and development programs, is now available online, which makes people self-sufficient and gain the assurance they need to survive in today's high-tech world. Hamid also mentions that effective human capital management is critical for the timely

accomplishment of organizational goals, which can be achieved through organizational citizenship behavior, employee management techniques, and compensation management.

**Martin et al. (2018)** in their study suggest that the performance appraisal system is a necessary tool to improve the skills and knowledge of employees. This system also helps to identify the weak areas of employees and provide them with the required skills and knowledge. Performance appraisal makes it possible for employers to regularly and annually review the performance of employees and enhance their skills and knowledge.

**E. Geball et al. (2019)** found a direct relationship between performance appraisal and employee performance, which leads to high organizational performance. They suggest that the effectiveness of the performance appraisal system is crucial for human capital management. Performance appraisals help to identify the strengths and weaknesses of employees and inspire them for improved future performance.

**Umair Ahmed (2020)** reveals that green human capital management practices also affect the green competitiveness of an organization. Execution of green logistics practices in an organization is able to enhance its financial performance. The practices of human capital management play a vital role in every level of an organization.

#### **CONCLUSION:**

Human capital management is a critical aspect of any successful business. In today's fast-paced, technology-driven world, businesses are constantly in need of innovative and creative talent to stay ahead of the competition. Human capital management practices are essential in identifying and attracting such talent. Furthermore, there is a direct and positive relationship between human capital management practices and organizational performance. The performance of employees plays a critical role in mediating this

relationship. By investing in human capital management practices, businesses can become more productive and better equipped to deal with the growing complexities of the market.

Here it is noteworthy to say that investing in human capital management practices is one of the most important assets for a business because employees are the primary factor in attaining target performance and providing customer satisfaction. By keeping employees satisfied and motivated, businesses can indirectly improve their performance and increase sales revenue. However, it is important to implement these practices on time and follow an effective strategy to make them successful.

But we cannot deny the fact that there are some key challenges in business sector that include retaining key employees, ensuring the effectiveness of training programs, and recruiting the best talent available in the market. By implementing effective human capital management practices, businesses can address these challenges and gain a competitive advantage.

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