

**HUMAN CAPITAL THEORY AND HUMAN RESOURCE MANAGEMENT.
IMPLICATIONS IN DEVELOPMENT OF KNOWLEDGE MANAGEMENT
STRATEGIES**

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Abstract

In terms of the organization, the human capital theory and human resource management raises a number of issues, namely: human capital issues (they relate to attracting, maintaining, developing and rewarding human resources in order to create and maintain a skilled, dedicated and motivated personnel); issues related to the structural capital (with reference to the size and development of organizational structures that stimulate the processes of creating, capturing and sizing of knowledge); issues of organizational capital(those related to knowledge management). Therefore, organizational context, several questions arise: What knowledge do we have? What knowledge do we need now and in the future? How can we create an environment and a culture that encourages individual and organizational learning? How can we do so that both explicit and tacit knowledge to be captured stored and used judiciously?

This paper focuses on human capital theory, but there will also be raised concepts associated to the human resources and knowledge management. Therefore, in this paper we try to identify ways in which human resources (HR) specialists can support the KM strategy to drive value within organisation, by revising the practices in order to ensure the knowledge focus.

Key words: human capital, knowledge, knowledge management, human resources, intellectual capital

JEL Classification: M10, M12

I. INTRODUCTION

In today's business environment, the labor oriented theory is replaced by the theory of knowledge oriented value. Basically, the overall success of modern society is given by the existence of an environment oriented to the production of new knowledge, characterized by the talent and motivation to create new ideas, to facilitate the spread of good ideas and possibly to ensure that they are converted into individual products and services, used by a certain human community.

In order to benefit of the advantage of the knowledge exploitation as a distinct resource a society must have those people / employees, well trained (*human capital*), who are able to create and exploit knowledge. Under these conditions, for most of the organizations and nations, the ability to create a sustainable future is directly proportional to the way they are encouraged and to develop the intellectual abilities of society (*knowledge management*). It is therefore necessary to achieve a retention of individual knowledge through knowledge management processes, but equally important is to consider the issues of structural capital (ie the ways in which knowledge is developed through interactions between people) and organizational.

II. HUMAN CAPITAL THEORY - THEORETICAL INSIGHT

The human capital is approached from different aspects, each raising questions of definition and operationalization; however, most analysts include in the structure of this concept certain features or poses of manifestation:

- learning, at the childcare stage and at the family stage;

- education and professional training (educational capital) - the set of knowledge, skills, economic, socio-cultural, civic behaviors, obtained through the investment in initial training and in the continuous training - ie the integrated system of skills (theoretical, practical, behavioral participatory);
- workplace training through specific activities such as research and innovation or participation in various associations / professional networks;
- informal education at work (*on the job*) in everyday life and through civic activities;
- the state of health (biological capital) - measured by investment in health care and social assistance of the human resources through a set of demographic indicators, of health, economic, social etc .;
- the volume and structure of household consumption - affects both the demand for education and professional training and the quality of labor supply;
- the migration / mobility (internal and external) of population and labor force, which in a confined space may be factors of increasing or decreasing the stock of human capital and thus change its flow, which induces trends of capitalization (professionalization) or disinvestment;
- the non-cognitive skills specific to a cultural array and / or some cultural environments.

Taking into account the different situations / traits attributed to the human capital by various theorists over time (from Schultz and Becker to Coleman, Armstrong), we can say that the concept remains today defined by the stances suggested by us in figure 1.

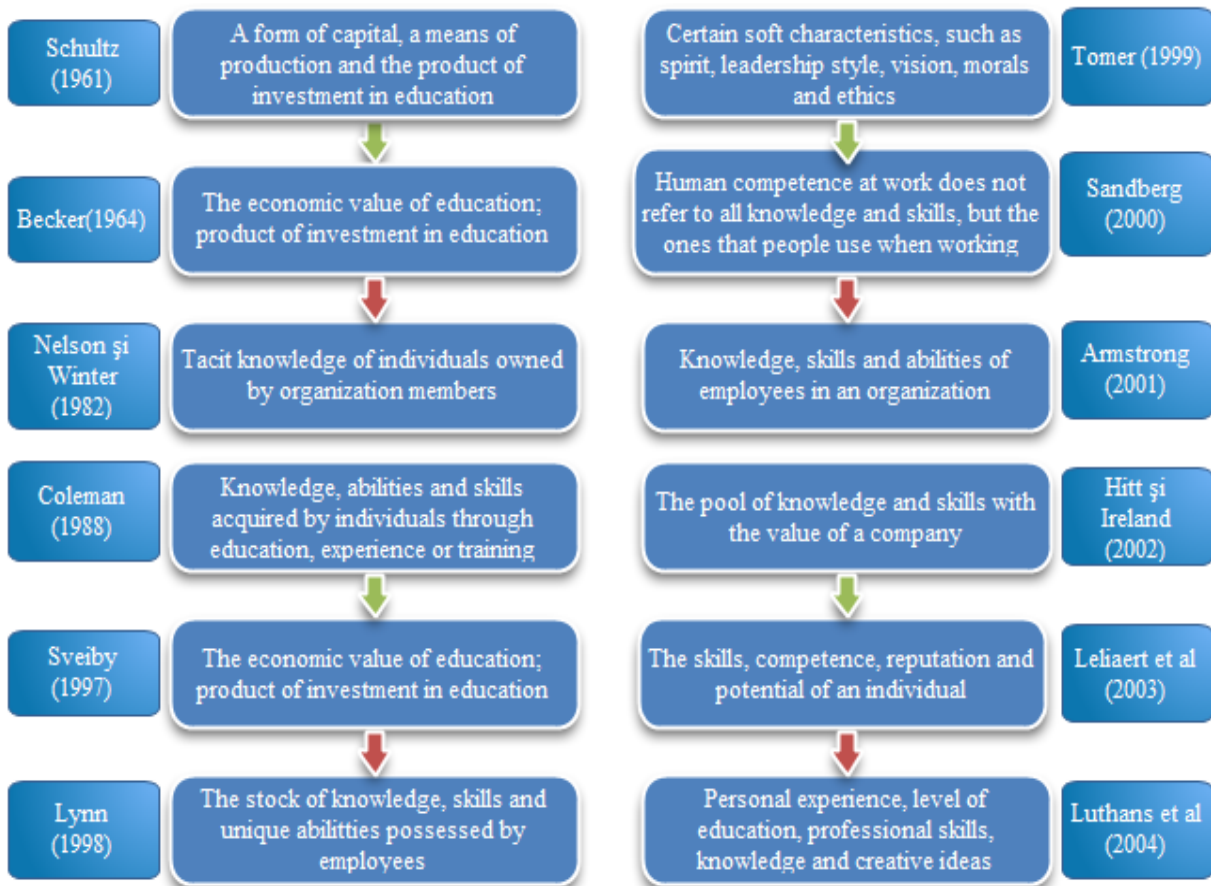


Figure 1 Instances attributed to human capital

Source: representation according to Tyu-Shian Han, Carol Yeh-Yun Lin, Mavis Yi-Ching Chen (2008), Developing human capital indicators: a three-way approach, International Journal of Learning and Intellectual Capital

Human capital theory is associated with the resource-oriented perspective of the company, as described by Barney (1991). According to this view, the sustained competitive advantage is achieved when the company has the human resources that can not be imitated or substituted by its rivals in the market. The competitive

advantage a company needs to survive is obtained by using methods different from those used by its competition; therefore, each company will try to find (consciously or not) rare resources that are impossible to imitate, copy or replaced. There are arguments that lead us to say that the stock of knowledge and all that implies the knowledge become the ultimate resource for companies, ie the resource that ensures / maintains competitive advantage; so human resources in organizations as equivalent to human capital, become in time a vector carrying the knowledge that is difficult to replace or imitate (Manolescu, 2003).

If we consider Porter's (Porter, 2008) model, we see that there are a number of factors on which competitiveness of some organizations depends, factors such as:

- Factor endowment of the country or the sector with primary factors of production;
- The strategy of the company, structure and competition in the sector;
- The characteristics of the demand to be met by organizations;
- Related industries and / or competitors those are internationally competitive;
- Strategies designed by the Government, especially on education, health, infrastructure etc.;
- Opportunity or chance, which includes inventions, technological discontinuities, changes in markets

etc.

The model developed by Porter does not refer explicitly to knowledge (human capital) as a factor of progress that distinguishes countries, but note that *each of the factors analyzed closely by Porter involves, individually, an important stock of knowledge as that factor to become operational in the global market*. Simply put, we think that the complete diamond proposed by Porter (to account for the differences between countries / organizations on economic growth) is, in fact, strongly "anchored" around what we call knowledge; the invoked idea is suggested in figure 2.

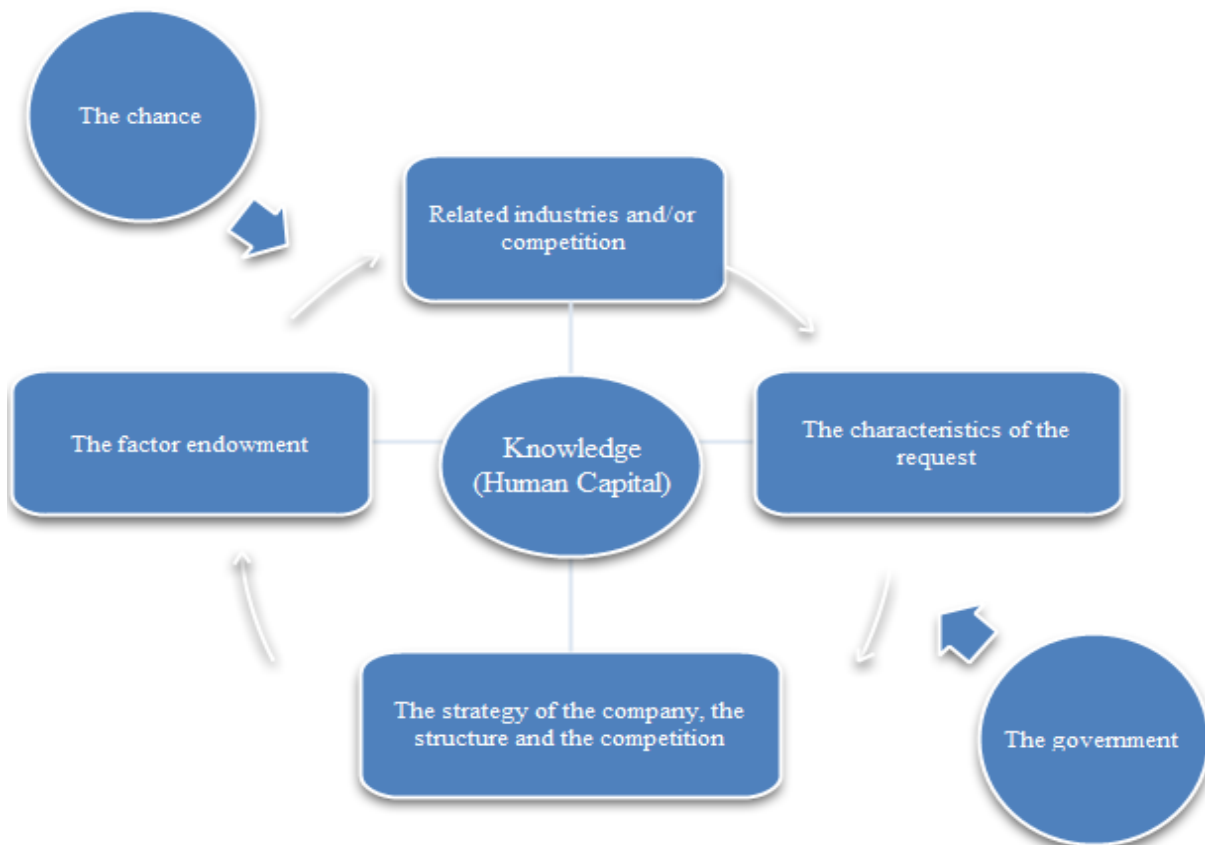


Figure 2 Knowledge and Porter's complete diamond

Source: representation according to Porter, M. (1990), *The Competitive Advantage of Nations*, The Free Press, Simon & Schuster, New York

However, as Boxall noted (1996, 1999) a distinction has to be made between "human capital advantage" resulting from the use, largely tacit, of employees holding knowledge and valuable benefits plan in the competitive field, and "human process advantage" (knowledge management) arising from the establishment

of processes difficult to imitate and highly evolved within the company such as interdepartmental cooperation and development management.

Consequently, the advantage of human resources (human capital), the superiority of a company to another in terms of knowledge management can be considered the product of two advantages: the human capital and the human processes of the company (knowledge management).

Thus, as important as human capital theory, interest in this theory should not distract attention from other aspects of knowledge management. This is why, in the following, we address key issues related to the human resources management in knowledge management.

III. HUMAN RESOURCE MANAGEMENT IN KNOWLEDGE MANAGEMENT

According to Chan (2002) “the new competitive advantage and the new barrier for organizations of XXI century is the knowledge of human resources” (Chan, 2002). It is time to recognise the most valuable resource of a company – the knowledge. Since knowledge belong to the employees, any activity of the employees will affect the knowledge management.

The most relevant resources within the knowledge economies are: knowledge, intellectual capital and time. The people - being the only source that has the ability to think and implement new ideas, occupies the central position in the formulation of relevant productivity strategies.

If people are considered the only true source of sustainable competitive advantage, than who better than HR could lead the development of well-rounded KM strategies to add value? Actually it is often a debatable question if KM should be a separate department by itself handling the various aspects of KM or should it be integrated with an already established department. This brings us close to Human Resource (HR) department. With the challenges to recruit and retain top talent, now is the time for HR to embrace a new skill set to add more value. KM is all about people and the culture of sharing and not just the tools employed. The HR department has a very crucial and vital role to play in not just its formation but also in giving KM its shape.

The new type of human resource management (HRM), evidenced in knowledge-based firms has several characteristics that differ from classic human resource management:

- focus on addressing human resources in terms of amplification and efficient treatment of knowledge;
- inclusion in its scope not only employees, but also other key stakeholders of the organization;
- Intensive differentiation of approaches, decisions, actions and behaviour of specialists in human resources management, to be able to effectively consider the heterogeneity of human resources involved in the organization, their characteristics, motivations and expectations;
- manifestation of intense creativity in all human resource management processes, to be able to design appropriate solutions, effective and efficient involvement of human resources;
- design and implementation of HR activities in a flexible way, constantly changing their content and functions, in accordance with endogenous and exogenous evolutions of the organization;
- retention of professionals/experts based on knowledge within the firm, of the elite, their involvement in shaping and managing their own careers (this is a core function of knowledge management, which largely depends on the functionality and performance of the company);
- matching / coordinating all human resource activities in accordance with performance objectives of the company, to ensure its sustainability;

Defining features listed are reflected in all processes that are the content of human resource management, upon some causing dramatic changes.

Can be easily noted in the current economic circumstances the new approach to human resource management, so as to be able to cope with many types of challenges.

Knowledge management is a fundamental business enabler, it will help organisations to protect their intellectual capital, to focus on their most important assets: their human capital, to link people to people by setting up collaborative methods and re-orient their culture by opting for an optimal knowledge sharing strategy.

The transition to knowledge management/organization should start with building a new culture, which itself is an intangible management resource of the organization.

Organizational culture is an important factor through which human resource management determines the development of knowledge management. According to specialists (Staniewski, 2008), organizational culture has a contribution of 79% in developing knowledge management, followed by the qualification of senior staff (77%), the qualification of employees (72%) and motivation (54 %).

The organizational culture of a company based on knowledge, presents, essentially, the following characteristics: focus on people and knowledge and not material elements; open to internal and external stakeholders; focus on customer satisfaction; responsive to the news in all fields of business; supportive for knowledge sharing; focused on individual and organizational learning; favouring the creation of new and innovation in all activities of the organization; focused on intense participation of employees in decision-making;

motivational for taking risks, actions and performance; based on fairness and mutual respect for all stakeholders; tolerance to errors and failures, in particular in innovation; promoter of change in all areas of activity of the company; protective for employees and other stakeholders knowledge; focused on group sustainable performance; places emphasis on the development of understanding, collaboration and cooperation between specialists.

Building such an organizational culture is based on the following elements:

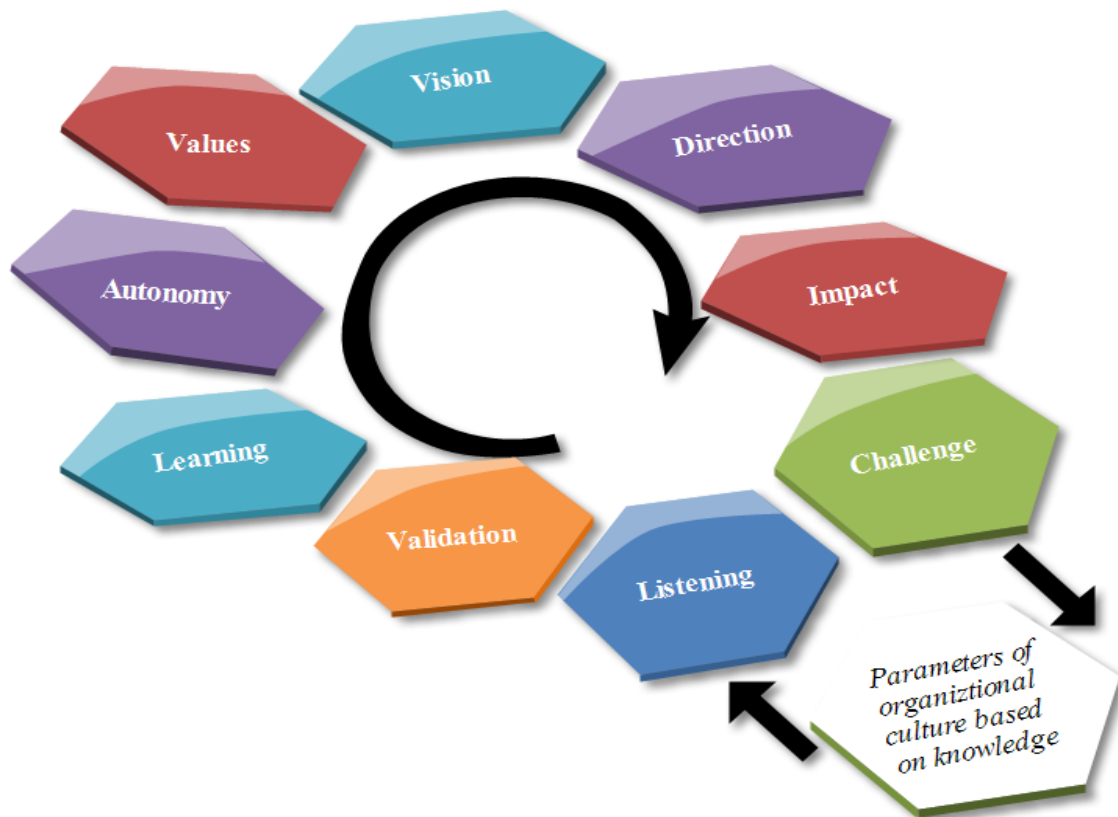


Figure 3. The parameters of organizational culture based on knowledge

Source: representation according to Nicolescu, O., Nicolescu L. (2005)

The authors Nicolescu, O., Nicolescu L. (2005) define the parameters of organizational culture based on knowledge as following: *vision* incorporates stimulating, comprehensive and empowering ideas, while *direction* clearly indicates the precise trajectory followed by all the stakeholders of the organization. The term *impact* suggest the determination to obtain results different from other companies. *Challenge* means to establish organizational and individual goals and tasks higher than in the current period. Through *listening* it is suggested that all the ideas and opinions of the employees will be heard by managers and owners. The appreciation and the appropriate recognition of skills and contribution of individuals and groups reflect *validation*. *Learning* dimension define the continuous acquisition by employees of new knowledge, skills and abilities. People are empowered to act widely, using a variety of forms and methods, this action defining the individual *autonomy*. Not the last, the *values* reflect the harmonization of each person values with organizational values.

The values promoted by each organization have a significant impact on the conduct of the employee through the process of internalization. The existence and effective promotion of an organizational climate of honesty, productivity and safety orientation has the effect of reducing potential employee deviant behaviours in all these directions (Popa, 2008).

At the company level, the set out parameters are incorporated in the strategy of the organization, which foreshadows the essential coordinates of the organization’s evolution. Only through a coherent and realistic strategy centred on the creation, acquisition, sharing, use, protection and exploitation of knowledge, which takes

into account from the start the reshaping of the organizational culture, can be build a performance knowledge-based firm.

Certainly, implementing any strategy requires, first, a strong commitment of senior managers in this process, as they trigger the whole mechanism of change. But another major issue for achieving organizational culture based on knowledge is the degree of involvement of lower level managers, heads of teams, offices, etc. in making the strategy operational.

Watkins&Marsick (1993) states that active participation of top management levels is necessary for successful change, and learning organizations and creating the right environment for learning and knowledge transfer cannot be only built from the training department / training.

Since that reshaping organizational culture means changes at the level of each employee, these depend heavily on the commitment and demonstrated competence of the managers who lead them directly.

A culture that encourages change is an essential feature of organizational learning. The new organizational culture based on knowledge is an essential component of knowledge supportive environment to which contributes all the components of the organization management and which ultimately condition sustainability and performance decisively.

Especially when faces such fierce environmental situations, the organization needs a stronger culture of adaptation, characterized by mutual cooperation and learning among members.

IV. CONCLUSIONS

There are many advantages of adopting a knowledge management strategy: “Knowledge management prevents staff from constantly reinventing the wheel, provides a baseline for progress measurement, reduces the burden on expert attrition, makes visual thinking tangible, and manages effectively large volumes of information to help employees serve their clients better and faster”.

Some of the most common considerations driving a KM strategy include:

- Reducing the risk associated with knowledge loss (retirement, turnover etc.)
- Facilitating and managing organizational innovation and learning
- Leveraging the expertise of people across the organization
- Increasing collaboration, the sharing of best practices and lessons learned

According to the specialist, HR/HC can use a four-step knowledge management strategy to drive results in their organizations as follows:

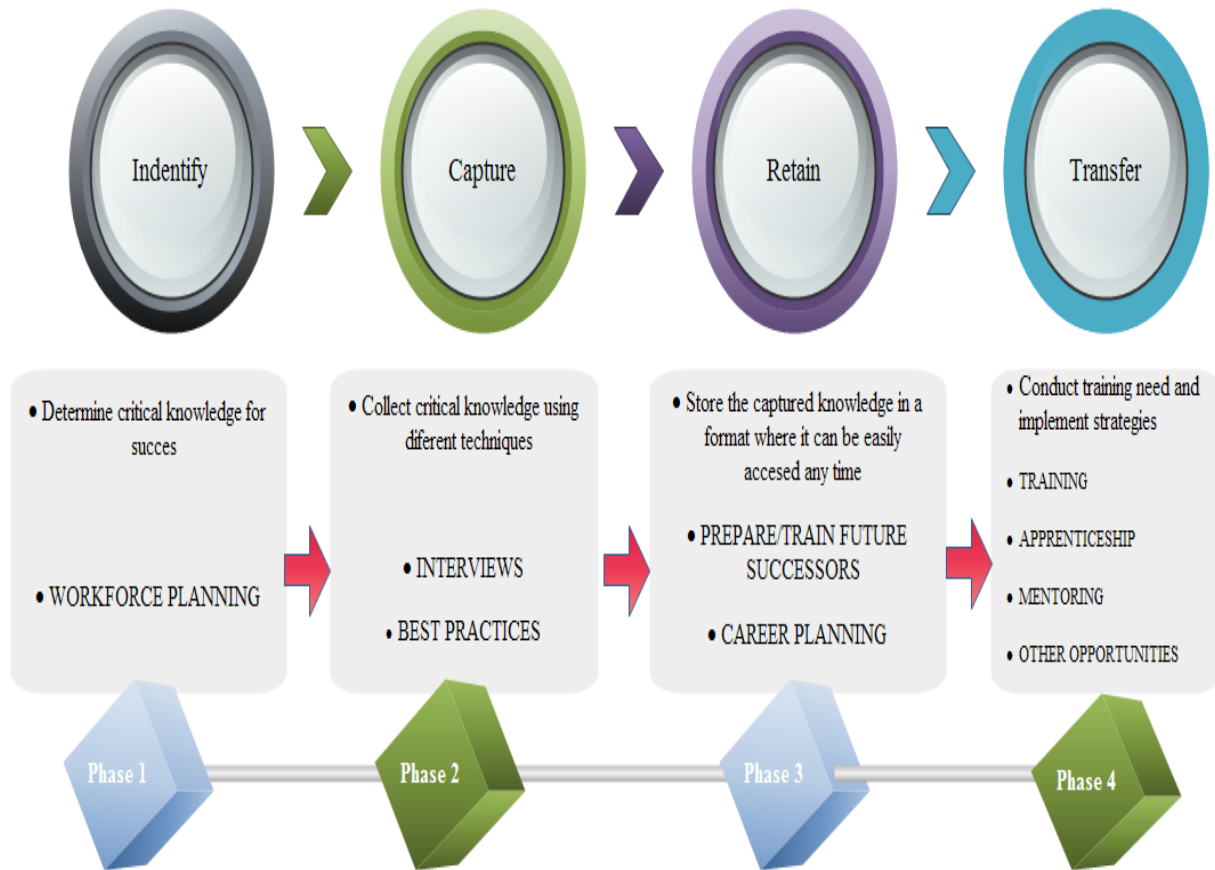


Figure 4. KM strategy to drive results

There are big challenges facing today’s HR professional from attracting the best recruits, to the retention of skilled knowledge workers.

The most crucial purpose is to transfer tacit knowledge into explicit knowledge. This can be done through traditional training methods, building employee personality and career skills and competencies, through workshops, through internal social networking sites and mailing lists via the intranet. HRM itself has to undergo some change in its use of technology – it needs to be at the forefront in understanding what technological tools are appropriate for the sharing of knowledge (from internal email niches to discussion forums on intranet).

Furthermore, recent research indicates that intellectual assets and resources can be utilised much more efficiently and effectively if an organisation is applying knowledge management techniques (Soliman&Spooner, 2000). The human resources departments are well positioned to ensure the success of knowledge management programs, which are directed at capturing, retaining and transferring employees’ knowledge.

HRM has to be the catalyst for culture change– connecting the traditional to the new methods, to leverage the collective knowledge in an atmosphere of “openness” with a competitive advantage. Thus, the HRM role can shift into a new value delivery model and can be seen as a more value added, becoming a strategic resource.

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