

# EXPLORING THE ROLE AND IMPACT OF HUMAN CAPITAL MANAGEMENT ON ORGANIZATIONAL

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**Abstract:** *This study is about human capital management in an organization. Human capital management (HCM) is the process of hiring the right people, managing workforces successfully, and enhancing productivity. It has evolved from a primarily administrative function to a key facilitator of economic value. The issue problem statement in this study is about why it is difficult for recent graduates to obtain work and why they are not hired because they lack added value or the required qualities. The purpose of this study was to explain the significance, key roles, and impact of human capital management. Human capital management is extremely essential to firms because it ensures the long-term process of recruiting, selecting, orienting, and retaining personnel. Furthermore, human capital management is vital in enhancing employee productivity, and employees must keep up with developments around them in order to not fall behind and to be able to enhance their knowledge and talents. This research also provided other recommendations, including an emphasis on well-being programs such as employee health, workplace happiness, work-life balance, and many more. Aside from that, managers may increase communication inside the organization by providing additional training and development in human capital management.*

**Keywords:** *Human capital management, importance, role and impact of human capital*

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## Introduction

Since the transformation from the production economy to the knowledge economy in the twenty-first century, human capital has been a key contributor to the entire country. (Dom & Ahmad, 2020a). Generally, human capital is defined as a collection of resources that include an individual's experience, intelligence, skills, and knowledge. (Caroline, 2021). Human capital management (HCM) is the process of determining the appropriate compensation for employees, managing the workforce, and boosting employee productivity. It has progressed from a primarily administrative function to a significant facilitator of economic value. Besides that, human capital is a component of intellectual capital, which reflects a company's vital, long-term knowledge in a competitive setting (Kucharčíková et al., 2021). In the hiring process, human capital management is crucial. It ensures that human resource professionals hire people who actually deserve to be there. It is vital to bring in the right personnel. A individual who is not well-suited to a certain position will not be able to contribute much in the long run. According to (Kucharčíková et al., 2021), HCM indicates a method of personnel management. Correct evaluation of talent, motivation, and placement of the appropriate individuals in the proper places helps enhance human resource use. HCM is also described as employee management in a firm that guarantees that each person contributes to overall productivity through their skills and expertise (*Human Capital Management - Meaning and Important Concepts*, 2022).

According to (Lawler, 2009), the objective of HCM is to retain talented individuals in a firm, whose activity is reflected in the organization's overall operations. The concept of "human capital" is gaining some traction not just among theoretical economics, but also among individual businesses and the state's economy in general (Nerdum, 2018). Furthermore, investing in people, their health, and education is one approach to accumulate human capital. Studies in this contemporary era have discovered that the problem of boosting the efficiency of people's productive energy usage may be implemented in current settings in the form of human capital. It is not only significant, but also promoted as a priority task in the socioeconomic research system (Rodchenko et al., 2021). The HC concerns and challenges have an impact on all elements of business at the workplace. As a result, it necessitates the ability to succeed. 'Human Capital' (HC) is a term that is commonly used in a variety of fields.

The fundamental elements of HCM include key performance indicators for expressing HC value, metrics for the effectiveness of HC use, and metrics for the effectiveness of HC investments (Durisova et al., 2019). Moreover, the HCM process can be affected by internal and external factor, since both sides play important role and have benefits (Kucharčíková et al., 2021). External factors, according to (Fanta, 2020), include a company's suppliers, the labour market situation, economic policy measures, customers, and competitors, as well as the country's technological advances and innovation environment. The internal factors are represented, for example by the motivation program remuneration system, (Stachová et al., 2018), corporate culture (Stacho et al., 2017), and employee turnover.

There are few functions of human capital management, among them are hire talent, orientation, employee training and development, employee retention, effective performance appraisal and feedback and provides access to data. All of the functions listed play a crucial role in ensuring human capital management so that the company's goals can be met. Not only that, but it can also promote organic growth by identifying specific employees' strengths. It accomplishes this by assisting the organization in optimizing internal resources in order to increase production

and revenue. This is achievable because human capital management focuses on employee growth and development, preparing them to achieve great results (Team, 2020).

Some countries have witnessed significant percentages of graduate unemployment, particularly during times of economic crisis and uncertainty when employers are less willing to hire, raising concerns about "graduate job preparedness" and even "employability" (Winterton, 2018). Malaysia is suffering from a serious talent deficit, with the brightest talent leaving the country in search of better opportunities (Awalluddin, 2019). According to companies, the major cause for an imminent Malaysian graduate's employability is a lack of soft skills such as excellent work ethics, communication, teamwork, decision making, and leadership abilities, as well as a competency level gap between local and international norms (Wahab, 2022). As a result, associated organizations must play a key role in both locating quality workers and retain them in the long term.

Hence, this writing aims to provide significant information and discuss key roles and impact of human capital management. Through this writing, it enriches knowledge from various perspectives, to be used as a scientific reference.

## Discussion

### Role of Human Capital Management

Human capital management is essential to the company and transformational change. Human capitals involve employee training, education, and other involvements to improve employee knowledge, skills, abilities, and values. Not only that, also human capital contributes to employee job satisfaction and improves both worker and organisational profitability (Banu et al., 2019).

Based on (Pribanic, 2020) there are few roles of human capital management that can play by organization. Human Capital Management really play a crucial part in order to make sure all the organization process and goals can be met. Firstly, by having a Human Capital Management can encourages collaboration. Human capital management plays a vital role in an organization by encouraging employee collaboration. Employees that are properly managed will learn new knowledge and skills from one another on a daily basis and will be able to shift around to other business roles dependent on the goals of the business and the employee's preference. The majority of industries require Human Capital Management. For example, in Industry 4.0, human capital must be supported through continuous learning and the use of education systems that are more focused on knowledge beyond what is now required. It is not only about corporate education (Kucharčíková et al., 2021). According to (Agolla, 2018), effective Industry 4.0 integration necessitates Human Capital learning and growth from in childhood. Higher education is important, but so is the appropriate preschool, primary, secondary, or vocational education. This not only makes the organization more flexible and capable of meeting the requirements of its employees more effectively, but it also makes it more successful as people contribute their talents and expertise to improve every element of the business.

Another role of human capital management in an organization is to encourage employees to become more committed in the organization. Therefore, job engagement occurs when employees are committed to their work and driven to perform at a high level. Organizational commitment, on the other hand, is defined as identification with an organization's goals and values, a desire to be a part of it, and a willingness to exert effort on its behalf (Douglas, 2021).

Employee turnover is extremely costly for a company; thus, it is vital to match people to roles that match their strengths while also pushing them. Senior management and managers are responsible for developing strategies to build effective human capital. Therefore, human resource management is the best function for organization to realize the strategy than has been developed. If there are issues or obstacles due to a lack of people or talents, (Dom & Ahmad, 2020b) recommends important talent management tactics such as recruiting, incentivizing, and engaging to assist organizations in dealing with those issues. To ensure the success of the human capital development and management process, it is necessary to match employee qualifications to open jobs from the start of the recruitment process (Fenech, Baguant & Ivanov, 2019). Managers must also challenge staff throughout the year in order to not only help them grow and develop, but also to enhance the firm.

One of the most significant roles of human capital management in an organization is recognizing and effectively solving challenges. As employer demands change and job markets shift, challenges are certain to develop making human capital management highly crucial for an organization to be able to retain its personnel and maintain the firm profitable. To ensure that employees stay longer in the organization and that human capital management is successful, training can raise the level of skills, information, and competency that are required to execute work efficiently. Zeb et al., (2018) also claims that training ensures employee job performance and can address issues that arise in the organization. The reason why human capital management managers are focusing on recruiting the proper talent in the first place is that it is the first step in acquiring the talent they require, and only after that do they consider retaining them (Bilan et al., 2020). Furthermore, constantly assessing employee benefit packages is a great way to reduce problems in a company. Employers can not only create a better-balanced work-life package, but also boost their recruitment and retention efforts.

Human capital management can assist new employees in becoming acquainted with the company's system (Majumder & Mondal, 2021). When the onboarding process is tedious and overburdened with information, new workers become confused and lose interest in the organization. Other than that, human capital management can use another system that can simplify their work in recruitment and other process too. For instance, with the advancement of technology, they can now use E-Recruitment Process of Employees, which is a Job Portals and Resume Scanners where it is designed to attract more and more applicants so that a pool of candidates applies for the job, and the organization has more options to select the best out of them (Kataria, 2022). Using automated technologies not only improves the effectiveness of the recruitment process, but it also reduces the time required to complete candidate sourcing, application tracking, selection, and onboarding (Kusmiyati et al., 2018). Organizations can guarantee that new hires are comfortable and learn about the firm at a good pace by using a human capital management system.

### **Importance of Human Capital Management**

According to Schultz T.W (1961), The idea of "human capital" is increasingly gaining relevance not just for theoretical economists, but also for individual businesses and the state's economy as a whole. Malaysia aspires to be a fully developed country by the year 2020. During the era of the fifth Prime Minister, Tun Abdullah Ahmad Badawi, he created the human capital concept in order to create an atmosphere in which human capital management is prioritized in order to assure the country's growth (Awalluddin, 2019). To ensure that the concept can be implemented, Tun Abdullah also strengthened relevant links between universities, research institutes, industry, funders, and the public sector, as well as giving incentive packages to

support research and innovation activities in order to expedite human capital development (Economic Planning Unit, 2015). There are few reasons why human capital management are important nowadays.

**Importance 1: Human capital management is necessary for attracting, managing, training, and keeping skilled and high-performing individuals**

Human capital management is crucial in the recruiting process since it involves attracting, managing, training, and retaining talented and high-performing individuals. This procedure is essential for managers to avoid making mistakes while recruiting personnel (Same, 2020). Besides that, the managers also implement performance management, which may be a significant retention factor by analysing employees' performance and providing action recommendations when necessary to avoid undesirable shifts (Pandita & Ray, 2018). This is because, according to the Educational Blueprint 2013-2025, Malaysia now has a skilled labor shortfall of over 700,000 to satisfy employment demand (KPM, 2013). The issue of human capital development must be addressed in order to guarantee that Malaysia has a competent workforce, well-rounded employees, and a large number of marketable graduates entering the labor force. (Awalluddin, 2019). As a consequence of the existence of human capital management, a company may sustain the labor of a larger number of employees. At the same time, it can help the organization's growth.

**Importance 2: Human capital management is critical to enhancing staff productivity**

Human capital management is critical to enhancing staff productivity. Individuals are able to contribute more to the system, thereby enhancing the organization's overall productivity. Diamantidis & Chatzoglou (2019) demonstrate that career development and cross-functional teams can help a company increase its employees' skill flexibility. Work motivation measurements serve to stimulate employees' working abilities while also maximizing their work output, which can meet an organization's short-term and long-term goals (Tien et al., 2020). Furthermore, by motivate workers can improve the work efficiency for employees. It is because it may influence employees' attitudes and behaviours, allowing them to work more competitively, have a stronger feeling of responsibility for their job, and, as a result, work more efficiently (Grzeszczyk & Tien, 2019; Long, 2019).

**Importance 3: Employees must constantly update their expertise to keep up with changing circumstances**

Human Capital Management assists in employee training and making them an important asset to the firm. Instead, organisations view training and development as an investment that produces both tangible results like increased productivity, better products and services, resource maximisation or optimization, as well as intangible results like high self-esteem, improved morale, and satisfied subordinates (Mihardjo, eta al., 2020). Aside from that, the manager should encourage staff to enrol in particular courses or online programs that would benefit them in their jobs (Banu et al., 2019). Additionally, Aboobaker (2020) argue that because technology is evolving quickly, abilities might become obsolete very quickly. In order to stay up with the times and maintain their competitiveness, organizations must provide employees with training. Employees who do not refresh their abilities on a regular basis will struggle to survive in the long term. The internet is also a fantastic way to stay up to date on the newest developments.



### **Impacts of Human Capital Management**

A multigenerational workforce is one made up of people from different generations such as generation X, generation Y, baby boomers and soon. As the average human life expectancy has risen, more individuals are choosing to work past the traditional retirement age. Besides that, human capital management will be in charge of managing a multigenerational workforce in order to guarantee that employees of all ages have the appropriate skills and can offer value to the firm (Boatman, 2022). However, it can be difficult for many organizations to keep up with generational differences. (Diamantidis & Chatzoglou, 2019). Delgado et al., (2020) defined that Baby Boomers are defined as people who prioritize work and enjoy personal communication. While Gen X is thought to have worse work ethics than Baby Boomers. Generally, they prioritize individual objectives over corporate objectives. A greater understanding of generational values helps leaders fill communication gaps where they exist, engender better communication, and reduce interpersonal conflict (Lee et al., 2018).

Employee engagement is influenced by an organization's connection with its employees. It is about making a workplace and culture more linked and devoted to your company's aims and values. Opportunities for professional advancement, a supportive work environment, acknowledgement of employees' accomplishments, a workplace that fosters cooperation, and a sense of belonging are all factors that contribute to a sense of well-being (Lee et al., 2018). So, the human capital management will monitor employee performance to see if they meet the set characteristics. Besides that, employee views of ability and job fit, management support for career objectives, and hospital administration following through on staff ideas for improvement all have an impact on engagement (Enwereuzor et al., 2018).

Leadership succession planning is the process of identifying and nurturing potential successors to key leadership positions in an organization. Johnson (2020) offered a practical perspective on leadership succession planning and suggested that it included the identification and advancement of human capital. Setting performance objectives, implementing plans to strengthen the company's skills, and making plans for the organization's changing environment are all part of the leadership responsibilities in an organization (Jackson & Dunn-Jensen, 2021). Such actions can result in a persistent competitive advantage. As previously mentioned, passing nursing expertise from one generation of leaders to the next is critical for developing future leaders. Human capital is simply one component of intellectual capital, which also comprises structural capital, such as a view of learning within an organizational framework, relational capital ties with customers and stakeholders, and social capital such as knowledge contained within organizational relationships.

### **Conclusion and Recommendation**

This study investigates the role, importance and impacts on human capital management. The process of hiring the right people, effectively managing workforces, and optimising productivity It has progressed from primarily administrative to a critical enabler of business value. Nowadays human capital management plays an important role to manage talents and recruit employees in the organisation in order to find the suitable employee that can add value to the organisation. Human capital management is necessary for attracting, managing, training, and keeping skilled and high-performing individuals, this is because they want to retain them in the long term by providing training, rewards and other facilities. As a consequence of that, human capital management needs to ensure staff productivity is maximised. Other than that, employees must constantly update their expertise to keep up with changing circumstances. Thereby, managers can implement programmes that increase their abilities and knowledge.

However, there are many obstacles to retain the good talents in the organisation. In order to make sure the process of recruitment run smoothly, the related party from human capital management plays their role. For instance, build commitments with the employees, address issues and simplify onboarding for new workers.

Even though human capital management has been employed in businesses, it still requires further research and development. Among these are focus on well-being initiatives such as employee wellness, job happiness, work-life balance, and many others. This is because focusing more on employee well-being can enhance employee satisfaction, ensuring that employees are not stressed and enjoy working in the long term. In addition, managers can provide more training and development of managing human capital. So, new and existing employees can improve their knowledge and skills in various fields. Indirectly, it can contribute to the development of the country as well as contribute to the capital growth of companies. Furthermore, organizations can boost employee communication within the organization. This is due to the fact that certain organizations lack this exposure since people want to spend time alone, completing work and going home. So, if this exposure is enhanced, not only will misunderstanding between employees be prevented, but employee relationships will be tighter, resulting in a pleasant, joyful, and successful work environment.

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