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Human Capital Theory in the Framework of Organization Theory

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Abstract
The purpose of this paper is to investigate human capital theory in the framework of organization theory. To get a full picture about the topic, on the one hand, it is important to handle organizations as operating entities, in which we analyze human resources as human capital; on the other hand, organization theory is helpful in clarifying the crucial issues an organization faces. First, i introduce organizational structure in more detail, after that, i list the tasks of human resource management in connection with the role of human capital in the operation of companies. In that part, handling discrimination plays a crucial role because the different suggestions to solve this issue turned the direction of the investigation to structural changes. Based on these we can state that human resource management works as a "system in the system" because of its participation in every task the organization has to handle from the structure through culture towards strategy. In this framework of the investigation, ways of managing discrimination led towards unexpected consequences.

Keywords
Human capital, organization theory, human resource management, organization development.

Introduction

In our fast-changing environment, it is inevitable to understand the new challenges and opportunities that a company can face. To understand the future, we have to investigate the past and the present. Over the past centuries, organization theory has developed into an independent social scientific discipline. It can explain and influence the working of organizations. Organization theory provides an insight into the corporation to understand the profound challenges to the ways how organizations work and how we can design them. However, the aim of organization theory is to improve organizational efficiency and efficacy in order to achieve shared organizational goals. What does it mean? In more details, organization theory enables organizations to achieve their previously predetermined goals successfully (efficacy) with as little use of its resources as feasible (efficiency). Moreover, it should help employees and employers to deal with issues that might hinder or prevent such goal achievement. (McAuley, Duberley, & Johnson, 2007)

The relationship between organization theory and human capital is direct and indirect as well. To understand the connection between these two, it is unavoidable to analyze the tasks of human resource management. Organization theory is a social science, which means it deals with people, their behavior and about the questions which have the power within the organization. When we are talking about organizations, human capital, and power, we are immediately focusing on management issues and human resource management. When we are comparing organization theory with natural sciences, we realize they seem to deal with an entirely different world because the reaction to changes may come later and in ways we do not envision. Employees and employers can change their behavior in the light of new knowledge. (McAuley, Duberley, & Johnson, 2007) This interpretation turns our attention to new challenges. Organization theory describes the organization, with its structure and culture and throughout these it has an indirect connection with human resource management and human capital. To achieve purposeful goals planning is inevitable. Because of

that organizational management should have an appropriate planning for its resources. One of the resources which are strategically important for the company is human resources which is a significant component for strategic planning. Human resource planning is a process for measuring the demand and evaluating the nature and size of supplies it helps to meet the request. Because of the above human resource planning is directly connected to strategic planning and institutional policies. (Bagheri, 2016)

In the section below, i will introduce key aspects of organization theory in connection with human resource management (HRM) and human capital. The literature review starts with the analysis of corporate structure as invisible control, after that the next part deals with organization culture, followed by how companies can and should handle discrimination. Every part of the literature review will start with hypotheses. As a result of the literature overview in the last part in HR as an integral system, I would introduce a model which became the result of the investigation.

Literature review and hypotheses

I would like to inspire innovative thinking and provide information for new streams of research with providing insight into the role of human capital theory in the framework of organization theory.

1.1. Organizational structure as invisible control

Hypothesis 1: Organizational structure is a form of hidden control.

Throughout history, management has been trying to find the best possible way to organize their workforce for creating maximum value. (Altman, 2016) As organizations are becoming incrementally structured around projects the role of teams are increased, the focus of research articles has changed from traditional organization structures to new ones because structure demonstrates hierarchy which leads to power. This new broad examination of how human resource management and practice can be furthered points to new ways of studying attributes of the connections between jobs and individuals. (Hollenbeck & Jamieson, 2015) It is easy to realize that new organizational structures lead to new forms of organizational tasks which lead to new ways of how individuals handle their work, how effective they are. The way employees are organized can create synergy, but it can also impede. Determining organizational structure involves automating HR processes, coordinating hiring, pay, promotion responsibility, defining transaction routing, security. Based on this, the structure defines who has access to which workers' data and who gets what report. Previously hierarchy has been the dominant element of organization structure. Hierarchies are all about control and command, who is supervising others, and who is the supervisor of a supervisor until the top node is reached. (Altman, 2016) It was always an important question who has power within the organization. Based on Wrong (1968) power equals control because when you are in a management position, and you have position power, you are able to control people.

We need to understand that each company needs its power structure, a particular hierarchical structure to be competitive enough on the market. Leading a corporation with strict hierarchical structure is always easier than leading a company where we cannot realize the control lines. Management control systems (MCSs) are essential parts of every organization's life. MCSs include everything in which managers help to ensure the proper implementation of corporation's plans and strategies or if conditions require then to do some modifications. Results control is also part of MCSs, and this is significant because it involves motivation of employees to produce the appropriate amount of products in a decent quality. This type of management control demands performance evaluations and measures which are connected to the compensation policies in the vast majority of organizations. Incentives are part of compensation policy which consists of monetary incentives, like stock options or bonuses and nonmonetary incentives, like autonomy, recognition, and praise. Autonomy turned back our attention to hierarchical structures and the fact that structure is a hidden control. (Merchant & Van der Stede, 2007) There are other types of organizational structures, as well, such as organizations with matrix structures or virtual organizations. We can state that the high-performing organizations of today are a network of teams which require an entirely new way of thinking about goals, leadership, roles, jobs and tools what we use to share information and measure the success. There are, of course, always new types of organizational structures such as holacracy (flat, flexible organizational structure, gives more autonomy to individuals and teams) and sociocracy (people organized in circles, with representatives bridging from one circle to another, consent decision mak-

ing). (Altman, 2016) To be able to adopt a new structure successfully, the company needs to have an open-minded leader who can create an innovative environment with an appropriate organizational culture.

1.2. Organizational culture's effect on strategic human resource management

Hypothesis 2: Organizational culture is one of the decisive components of organization theory and HRM.

We have already talked about strategic planning and structure. In this part, the focus changes to the social part of the company. Human resource management (HRM) practices provide employees with incentives, information, skills, and decision-making responsibility that are highly connected to developing business performance. As every organization has its particular structure and hierarchy, they have their organizational culture, as well, which depends on the different national culture. (Al-Sarayrah, Tarhini, Obeidat, Al-Salti, & Kattoua, 2016) National cultures are not identical to one another. Organizational and domestic culture are different terms. (Hofstede, 1993) Corporate cultures are distinct from each other even though the companies may reside in the same country. They shape organizations' processes because corporate culture refers to the beliefs, values, and practices that are shared by organizational members. This culture helps to hold the whole organization together by providing standards for employees to know what they should say and do. In other words, it guides employees' behavior and attitudes to do the right thing. (Robbins & Judge, 2013) The main difference between organizational culture and national culture is the fact that national culture distinguishes members of one nation from another one while corporate culture distinguishes organizational members from other organization's employees. The understanding of different national cultures is crucial for international managers to use the appropriate, culturally specific management philosophy and techniques. (Al-Sarayrah et al., 2016) Training can help managers to know how to handle different situations in international organizations where different cultures are living together under the umbrella of organizational culture. Developing and assessing human capital is a central, most significant goal for every single team. Training is a basic task of HRM; however, training interventions not always get the full support from leadership. This intervention will be much more efficient if employees have the essential support network within which they can discuss their newly acquired skills and knowledge and have the appropriate social environment in which they feel comfortable trying out their newly learned materials. (Hollenbeck & Jamieson, 2015)

In the following section, we are arriving at the most sensitive topic of this paper, which is handling discrimination. Organization theory deals with organizational practices, policies, and hierarchies. Among the phenomena of organizational practices we can observe the glass ceiling effect and the relatively new phenomenon "glass cliff". The "glass effects" are defined by organizational practices and policies consequently they are affected by organizational structure.

1.3. Handling discrimination

Hypothesis 3: Human resource managers cannot handle discrimination by themselves.

Based on Mathis and Jackson, (2010, p. 4) human resource management is designing the management systems in order to ensure that human (capital's) talent is used efficiently and effectively to accomplish organizational goals. In other words, we are starting to play chess with people. When we are trying to ensure that talent is used efficiently, we are focusing on the performance of the company. Efficiency in the case of organizations mostly connected to cost efficiency. To build a sustainable, efficient corporation, we should concentrate on diversity. Diversity means more diverse, differently talented individuals in one place. As diversity is growing in the corporation, the performance level will develop. To improve performance, we have to ensure equal employment opportunities and help protected-class members to become effective. Protected class members are people who are different based on:

- race, colour, ethnic origin
- gender
- age
- disabled people
- military experience
- religion
- marital status
- sexual orientation (Mathis & Jackson, 2010).

Protected class members are individuals who are members of the protected category under Equal employment opportunity (EEO) laws and

regulations. In the first figure, we can see the gender wage gap in the different Canadian provinces, in 2014. The sample consists of private sector employees aged 25-59. I chose this figure as an indication because Canada is a significant, developed country which means that statistics from developing countries would show higher differences. You can see clearly that wage gap still exists between males and females in every province. We can find evidence that companies are still trying to solve discrimination issues which mean it is not solved.

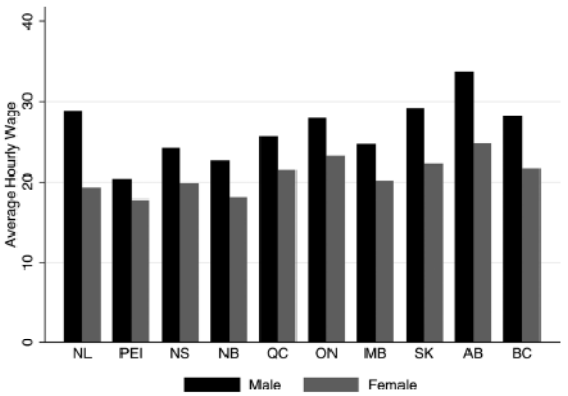

Figure 1 Average hourly wage in different Canadian provinces based on gender
Source: Schirle, 2015

Gardiner (2016) asked Iris Bohnet in an interview to analyze the leading causes of fighting against discrimination. Based on the interview, we can state that the problem still exists because the different discrimination programs do not work. Many American corporations conduct diversity training without measuring whether they are effective or ineffective. The reason behind inefficiency is the fact that the problem is within the organizational structure and not within people. Companies need to redesign their different processes in order to prevent discriminative choices. Human thinking is stubborn; it is very hard to eliminate biases even when we are trying. That is why it is necessary to redesign organizations to make it easier for our minds to get things right. In the case of recruitment, you can use software to put job candidates "behind the curtain." This software allows the managers to skip discrimination biases towards, age, gender, race or another socioeconomic background so they can focus on talents only. Managers should be conscious about the recruitment language that they use in this process. After that, they have to focus only on hard data because this process does not allow them to be biased based on their subjective evaluation. Gender discrimination is probably the most significant one because sometimes even the victims cannot see where things went wrong. We have to face the fact the humans are different based on their gender, as well. It is hard to focus on every aspect of the job, but once a manager starts to collect hard data those will be helpful because they allow us to study the phenomenon and to make changes and measure the progress. (Gardiner, 2016)

An HR manager does not work alone. They have to work in close collaboration with the functional areas of business, such as marketing and finance, and as it was already discussed with the top managers in order to develop the appropriate strategy. It can be a highly significant goal to promote the company's name as the best employer, or the best workplace. The employment branding of a corporation means that applicants see the organization as a desirable place to work for and because of that the company is able to attract more highly qualified applicants than those whose employment image is poor. These tasks can be connected to the marketing efforts of the companies. In the case of finance, we cannot forget the fact that human capital requires compensation which means we have to design a satisfying wage structure which fits the corporate and HR strategy. In this case, we arrive at the point when I introduce the second largest HR task which is connected to discrimination, reducing gender wage gap.

Despite decades of political mobilization and new directions of public policy, the differences between females' and males' wages remain one of the most significant forms of workplace inequality. Comparisons of salaries for female and male workers consistently reveal that female employees earn substantially less than similarly qualified men working in the same positions. To understand the sources of this kind of inequality, a significant number of research articles have focused on the role of organizational pay systems and practices within the United States, Canada and even in Germany. (Abraham, 2017; Abendroth, Melzer, Kalev, & Tomaskovic-Devey, 2017; Graham, Belliveau, & Hothchkiss, 2017; Schirle, 2015)

Schirle (2015) made a gender wage gap analysis for the period of 1997-2014 to see the differences between the years. She realized that the gender wage gap narrowed substantially in some provinces while in others the differences changed only a little. The provincial differences in the size

of the gap were mainly reduced when the gender differences in job characteristics were taken into consideration. Equal employment opportunity and affirmative action have a limitation to their success rate because of the pre-labor market gender imbalances. It is not enough to reduce the differences in the workplace we have to focus on the equal opportunities in education as well.

In the case of the American gender wage gap, the literature is considerable. There are studies which deal with workplace cultures, or hierarchies, but most of the articles are dealing with compensation systems. In the past years, there were papers about the formalization of pay systems and how they can reduce inequalities, but some of the recent studies suggest otherwise. The goal of Abraham's (2017) study was to determine whether female and male managers differ in how they are handling less formalized pay systems. Abendroth et al. (2017) studied, in Germany, whether and how gender differences in the case of power associated with gender differences in earnings. Based on these articles we can state that it is important to develop an appropriate pay system because male managers like to make advantages for their in-group members while females behave otherwise. They prefer male managers and do not pay more for their female co-workers out of jealousy, lack of self-confidence, lack of self-awareness, and because they feel threatened by other women workers.

In this study, i would like to advance our understanding of the relationship between handling discrimination and human resource management. It was evident that HR managers should highly focus on equal employment opportunities in different human resources practices and policies, but these last articles made it clear that discrimination is closely connected to financial aspects of the company, as well. To be able to build a bias-free organization it is indispensable to design a formalized pay system and to think over the previously used strategic processes, to collect hard data about employees and measure them in an appropriate discrimination-free process. These together will help to ensure that the company has a sustainable strategy.

1.4. Human capital theory

Hypothesis 4: As an aspect of organization theory, human capital theory is still changing.

Human capital measurement is not a new topic; researchers have been dealing with it since the middle of the last century. However, there were different researches, from the years of the 1950s, about the determination of the value of human capital there is no single model what the companies can use. The history of human capital measurement helps the experts in developing a new paradigm which can show the real value of human capital. Accounting calculates with human capital in another aspect it is using data from past events and data. With the development of human capital valuation, there is an opportunity to focus on the future and determine a new system. This new regime could use the development of different systems without their mistakes.

In their article, Folloni and Vittadini (2010) examined human capital evaluation from the beginning of 1600. Thanks to their extended research, which consists of more than 400 years, they were able to introduce different models: cost-based model by Engel from 1883 and Dublin & Lotka from 1930, value-based model by Farr from 1853, present value based model by Jorgenson and Frauemeni from 1989, referred to Folloni and Vittadini in their 2010 article.

None of these models determined the real value of human capital. The writers concluded that although there are hundreds of different articles which deal with human capital theory there is not a unified accepted view. The recent researches are dealing with family background, culture, skills, marital status, gender, and lifestyle not just with education and wages.

Schultz, Chowdhury and Van de Voort (2013) stated that we could determine human capital through his or her productive abilities which are coming from: education, qualifications, participation in training and working experiences. There is a new view of human capital which requires the perfect motivation of employees which leads us to Self-determination theory. Those people who are perfectly motivated are willing to learn and put special knowledge and skills into their working habits to improve the effectiveness of the company. Based on the theory we can state that individuals who have intrinsic motivation are much more valuable for an organization than a demotivated worker or employees with extrinsic motivation because people with intrinsic motivation have an inherent desire to finish the tasks, jobs to increase organizational performance. (Deci & Ryan, 2000)

2. Methodology

In this paper I chose desktop research that is literature review as a method. It is important to

show a clear research overview because it gives the opportunity to understand the background of the topic and to learn the new information better here. This study aims to review the literature that shows the relationship between human capital and organization theory. More specifically, consideration of the research on the concepts of human resource management, strategic human resource management, organizational structure, corporate culture, handling discrimination will be discussed briefly. After showing the background data and processes, the paper shows some alternative solutions to the problems. This article will provide insights for management to recognize the impact of organization theory on human capital.

3. HR as an integral system

If we think of HR as an integral system, it means we cannot separate it from other parts of the organization such as:

- structure
- culture
- finance
- marketing
- strategy

I have already introduced the topic from the structural and cultural point of view because these two are closely connected to organization theory. In the first figure, you can see the underlying relationships between these fundamental functions within the framework of organizational theory and human resource management in connection with human capitals.

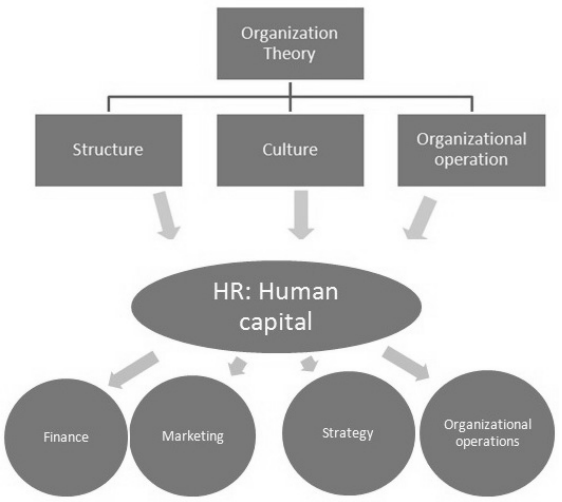

Figure 2 Capture (Style: SM-PictureHeading)
Source: Authors

As we have already discussed, the evaluation of human resources makes it to the most valuable asset of the organizations, but only a few company can employ its full potential. The tasks of human resource management involve all managerial personnel duties such as recruitment, hiring, selection, placement, compensation, training, and terminations, as well. All these process human resource management can enhance organizational performance. (Al-Sarayrah et al., 2016)

Conclusion

As a conclusion, I can state that I found evidence to decide whether the above-described hypotheses such be rejected or accepted.

The first hypothesis: *Organizational structure is a form of invisible control*: it should be accepted because structure is not immediately visible but guides human behavior. Hierarchy and different designs are not always directly visible, but they have control over what you can and cannot do within the organization.

The second hypothesis: *Organizational culture is one of the decisive components of organization theory and HRM:* should be accepted. However, we can find only a limited amount of evidence that corporate culture has a measurable effect on organization theory. National and entrepreneurial culture has a significant impact on the life of the company and through that to organization theory.

The third hypothesis: *Human resource managers cannot handle discrimination by themselves:* should be accepted because to build a bias-free organization all functions have to work together in a synchronized way. HR managers should work closely with marketing, finance, and operational managers to develop a newly designed corporation where discrimination is limited.

The fourth hypothesis: *As an aspect of organization theory, human capital theory is still changing*: could be accepted. There is no universal human capital evaluation method at the market of company evaluations. From year to year, there are newer and newer valuation systems, but there is no evident "one best way" of human capital valuation.

Summary

This paper aimed to shed light on the relationship between human capital theories in the framework of organization theory. I presented the connections between organizational structure, culture, and organization theory. I also discussed human

resource management and its link to human capital theory. Finally, I briefly reviewed human resource management as an integral system. This study will provide insights for management to recognize the relationship between organization theory and human capital and evaluate the impact on the performance of the whole organization. SM

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