



## Human Capital and Performance Management in the Albanian Public Organizations

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### Abstract

*Developing an effective, competent and forward-looking public service as well as strong but lean state institutions is one of the greatest challenges nations around the world face today. Researchers as well as governors have highlighted the central role of the human capital in the public services offer. Organization scientists have long considered human capital as a strategic asset that contributes to organizational effectiveness. Whereas the strategic importance of human capital has been widely studied in the case of for-profit organizations, measurement difficulties and the role of human capital in the public sector have received little attention. In a democratic, civil, postmodern society, one of the main tasks is the development of systems for managing the efficiency of human capital in the context of public administration, as a means of obtaining higher levels of labor productivity. Actually, it should be acknowledged that orienting the performance management system to support the attraction of new human potential in public administration at all levels can better achieve this efficiency in the utilization of human resources. In this context, a new approach to the human capital management process is being actualized, which includes employee engagement and key factors of employee engagement at every stage. Albania public administration organizations suffer a lack of flexibility in using the human capital management instruments in favor of a better individual and organizational performance because of the rigid legal framework under which it functions. On the other hand, the special character of the public administration organizations and the public services note the added value of the role of the public administrator. This study tends to bridge this gap on the literature on the importance of the human capital and its impact on the performance of the public organizations as well as to practically evaluate the influence of the human capital on the perceived performance of the Albanian public organizations.*

**Keywords:** Human Capital and Performance Management, Albanian Public Organizations, new human potential in public administration

### 1. Introduction

Traditionally, economists have defined human capital largely in terms of knowledge and intellectual capital. It is now widely recognized that this focus on knowledge does not fully capture the domain of human capital (Arvanitis and Stucki, 2012). In the last 20 years, the human capital concept has evolved significantly, and current conceptions of human capital include a wide range of human attributes that are relevant to job performance and productivity, ranging from personality traits, work attitudes and values (Ployhart and Moliterno, 2011) to characteristics such as creativity, wellbeing, self-efficacy and resilience (Madrid et al., 2017). The expansion of the domain of human attributes that define human capital can be usefully understood with a taxonomy highlighting the distinction between can do and will do attributes (Ployhart and Moliterno, 2011). By several authors human capital is the economic value that comes from things like the worker's

experience, skills, knowledge, and abilities. Human capital is an intangible asset, unlike tangible assets like buildings and equipment. However, both tangible and intangible assets have economic value. Human capital management, is the collection of organizational practices related to the acquisition, management, and development of the human workforce—or human capital—within an organization. The goal of human capital management is to optimize and maximize the economic, or business, value of an organization's human capital in order to gain a competitive advantage. Effective human capital management enables the organization to successfully pursue human capital initiatives.

Human capital refers to the aggregate skills, abilities and knowledge, and other competencies of an organization's workforce (Ployhart, Weekley, and Bauchman, 2006). The predominant theoretical approaches to examining the importance of skills and abilities are human capital and labor economics in economics, occupational psychology, human resource development in management, and capacity development in development administration. Neoclassical development economists make the argument that human capital and technological advances are necessary prerequisites for the growth and prosperity of societies. Organizations and management researchers are also consistent in maintaining that organizational performance or productivity and efficiency is determined by the accumulation of skills and adoption of technological innovations (Dess and Shaw, 2001). In recent decades, investment in human capital development emerged as a major component of modern organizations' "intended" and "deliberate" strategies, using Henry Mintzberg's strategy typology (Mintzberg, 1994: 23-24). "Human capital" has become the top priority and slogan of many governments pursuing economic and institutional development around the world.

## **2. Methodology**

This study treats from the theoretical point of view the concept of human capital management and its influence on the organizational performance illustrating it by the theoretical approaches of the public organizations' perspective. The present study employed a qualitative research approach to investigate the relationship of human capital management with organizational performance regarding the public organizations.

## **3. Managing Human capital in Public Organizations**

Meanwhile human capital management is often confused with human resources management and the big challenge is to identify all the differences not only in the way it is named but also the differences in the way each of them can work and furthermore the influence that each can have on the organizational performance. Human resources have driven human capital management. For some, it is just a name change, but there are real differences in how they work. A school of thought supports the idea that change recognizes that identifying workers as resources signifies that they are a finite energy or work source that can easily be exploited. So, it is used and then passed over to get newer resources. But using this term doesn't mean that is how the workers are viewed. Yet, for many, the relation is enough to take them as human resources. While human capital means something quite different. Resources might be limited but not capital, at least not necessarily. Capital means wealth, and it causes the business to acknowledge the value of the workforce. Moreover, capital can generate more capital. So, taking the employees as human capital instead of human resource shows an ongoing relationship with the assets that are committed to driving prosperity and growth for the company.

Human resources (human capital) are the prime source of biggest value and major cost of the organizations and the relentless renewable source of innovation and creativity but not reflected in its financial statements (Mathis & Jackson, 2011). In order to get a precise picture to the extent to which human resource is benefitting business, it is needed to keep record of investment in it, and to measure corresponding outcomes as well as report to the management. Human capital management can help an organization to assess people input in the success of a business as quantifiably as possible, and document and report accordingly.

Organization's human capital can be organized in two levels - individual and unit. According to Wright & McMahan (2011), human capital, at the individual level, consists of the characteristics owned by an individual that can produce positive results for that individual, and on the other hand at the unit level, human capital can be considered as the aggregation of individual human capital which can be pooled in a way so that it can create value for the unit.

Organization's human capital consists of intellectual, social and organizational capital. Intellectual capital is the repositories and flows of knowledge available in an organization, it is the intangible resources associated with people; social capital is created by the knowledge resulting from networks of relationships inside and outside the organization (Armstrong & Taylor, 2014); and organizational capital is the institutionalized knowledge owned by an entity

which is recorded in policy papers, manuals, databases, etc. It is also known as structural capital. It (organizational capital) is the archive of knowledge that rests in an organization even though after individuals leaving the organization (Grasenick & Low, 2004).

There is a large and developing body of proof that shows a positive linkage between the development of human capital and organizational performance. The accentuation on human capital reflects the view that market value depends on intangible assets, particularly human assets. Enlisting and holding the best employees has the core value in gaining leverage over competition. The association also needs to capitalize on the skills and capabilities of its employees by empowering individual and organizational learning; and making a strong domain where knowledge can be made mutual and applied. Bassi and Mc Murrer (2007) in their study on HCM developed a model to anticipate institutional performance and control affiliations interests in employees. These drivers fall into five categories, namely, direction practices, employee engagement, information accessibility, workforce optimization, and organizational learning limit.

Becker (1964) cited in Han et al. (2008) pointed out that Human Capital can be classified as national, industrial and organizational levels, however Ployhart and Moliterno (2011) cited in Harris et al. (2018) recognized Human Capital as "unit-level" with individuals' knowledge, skills, abilities and characteristics that aggregates in to the Organizational level. The increase or the decrease in Organizational Performance is firmly tied with HCM practices (Bassi et al., 2007). Similarly, Nicol-Keita (2013) emphasized that HCM Practices in an organization is significantly contributing to enhance performance of the organization. It was also revealed in the study results of Perera (2017) that different industries have followed the different HC practices in order to gain numerous advantages.

#### **4. Human Capital and Organizational Performance in the Public Organizations**

Employees improve the performance as well as profitability of an organization Kucharcikova et al., (2014), they accomplish goals with the behaviors and characteristics they possess and improve organizational performance according to (Birasnav et al., 2011). The leaders show better performances in their given responsibilities and their work-related activities Birasnav et al., (2011) similarly, Nicol-Keita (2013) asserted that HCM impacts on employees' behavior, work attitudes and in turn translate into Organizational Performance whereas Crook et al., (2011) the Human Capital shapes performance. Human capital research in the early stages emphasized three dimensions; "education, training, and experience". Mincer (1958) focused on training and education as components of human capital and attributed disparities in human capital to individual income differences. Likewise, in addition to education and training, Schultz (1961) identified health and internal migration as a human capital strand. Schultz believed that human capital can be developed through intentional financing while investing in their skills development and capability enhancement. Whereas Schultz further linked the disparity in productivity to "education, health, and training". According to Boremen and Motowidlo, (1993) cited in Armstrong, (2012) stated that performance covers the non-job-specific behaviors similar to dedication, cooperation, enthusiasm and persistence that differentiates performance. Crook et al., (2011) conducted a study and found HC is strongly related to performance. The indicators of Organizational Performance are identified such as industry leadership, future outlook, sales growth, profit growth and profits in study of Bontis (1999) and Jamal and Saif (2011) too tested the same indicators to measure organizational performance in their study. The development of managerial skills such as leadership, decision making, allocation of resources, the ability to resolve conflicts and process information, in addition to making relationships with subordinates, peers, superiors and clients are really individual skills and, although they can be taught, they cannot be transferred (Harris & Helfat, 1997). Recent scholars have argued in favor of the importance of human capital contribution on organization's outcomes (Lepak & Snell, 1999). According to the results, an organization's strategy is strongly affected by the human capital that the organization owns, but this relationship is more complex and deserves further research.

Recent empirical studies have found that individual public officials and organizations are of primary importance for public sector productivity. Years of research on the effect of motivation on performance has shown a strong and consistently positive link between the two (Brewer 2010). Performance management can have a significant impact on public servants' motivations and attitudes, and thus, on the performance and productivity of the organization at large.

Human resource management policies and practices that enable managers to effectively manage the performance of their staffs play a critical role in improving public sector productivity by increasing staff engagement and aligning individual efforts with organizational goals. Practitioners must go beyond the traditional view that staff performance can be achieved only through the use of extrinsic incentives, triggered by an annual appraisal exercise of individual performance. Instead, performance management should be viewed as a continuous cycle of planning and defining, monitoring and enabling, measuring and evaluating, and rewarding (or sanctioning) employee performance, at both the

individual and team levels

Managing individual performance in the public sector is challenging, but it also has some advantages. The public sector's sheer size and heterogeneity means that there is no "one size fits all" performance management system that works for all types of jobs and organizations in the public sector. In the core public administration, there are few "production-type jobs," so it is difficult to objectively measure and score performance. Most public administrations are characterized by rigid career management and compensation systems, which further limits the possibility of offering performance-based pay and promotion incentives for many. However, the public sector has its own advantages. For instance, its size provides for development opportunities through mobility across organizations. Also, public servants are more likely to find meaning in their work by making a positive difference in the lives of the citizens they serve. This sense of mission offers tools for keeping them motivated.

## 5. Conclusions

The public administrators in public organizations must visibly and continuously demonstrate commitment to performance management for it to be effective. First, the organization's leadership must publicly endorse performance management as an organizational priority, so that managers and staff are encouraged to allocate the appropriate time and effort to fully engage with the process beyond administrative requirements.

Second, for such a personal endorsement to be credible, the leadership must ensure adequate resources within the organization to implement and sustain the performance management system. For instance, the organization's leaders might introduce mandatory training programs for managers and HR departments, but they must be ready to enforce accountability in the process, even for high-level stakeholders (Pulakos and O'Leary 2011).

The mechanism of human capital management and organizational performance should be linked and intermediated with the public organizations' performance through the individual performance. It is very important that human capital management practices should be concentrated and loaded on the individual performance and should be focused firstly to improve the individual performance. Though the everyday work and commitment the individual performance should be translated in organizational performance. If organizations do not pay attention to the performance of public administrator and his characteristics cannot increase organizational performance. Practices of human resource management are successful if they tend to affect the inputs and outputs of individuals in order to achieve the highest level of influential.

Albanian public administration functions based on the Civil Servant Legislation, Labor Code and special laws for professions. Then more details are administrated with internal regulatory. So main frame and limits in a certain way are decided from these instruments. The general opinion of all the respondents to the questions on how they try to discover the fit between job positions, organizational specifics, and characteristics during recruitment or performance appraisal of the public administrator was that it is practically impossible to find the best or the perfect fit. Main reasons for that answers were firstly based on the fact that main practices of human resource management are based in well-defined procedures supported from all these legal instruments, so all the process tends to lose flexibility effecting efficiency and quality of the all practices.

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