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Innovative Approach to Improving the Human Capital Management System in Small Businesses

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Abstract: This paper explores best practices for enhancing human capital management (HCM) in small firms. It outlines key investment streams that provide a structured approach for assessing the market value of human capital within local enterprises. Additionally, a framework for the development, retention, and effective deployment of human capital is proposed to improve the competitiveness of small businesses. To enhance financial performance, organisations are encouraged to implement innovation and investment-based human capital management practises, recognising that employees are valuable human capital resources.

Keywords: human capital, theories, work, personnel management, methods, resources, manager, knowledge, skills

1. Introduction

In recent years, human resources have become an essential element of an enterprise's economy. Previously, an individual's contribution was seen as supplementary, but the shifting global economy has brought a focus on intellectual capabilities, creativity, and continuous learning. These qualities, when developed and accumulated, form what is now recognised as human capital—a strategic resource crucial for an enterprise's economic growth (Figure 1). Human capital, however, must be nurtured and enhanced to consistently deliver value and support organisational performance (Table 1). One of the main issues facing modern enterprises, particularly in Uzbekistan, is the absence of a system for calculating the value of human capital, both generally and within specific companies.

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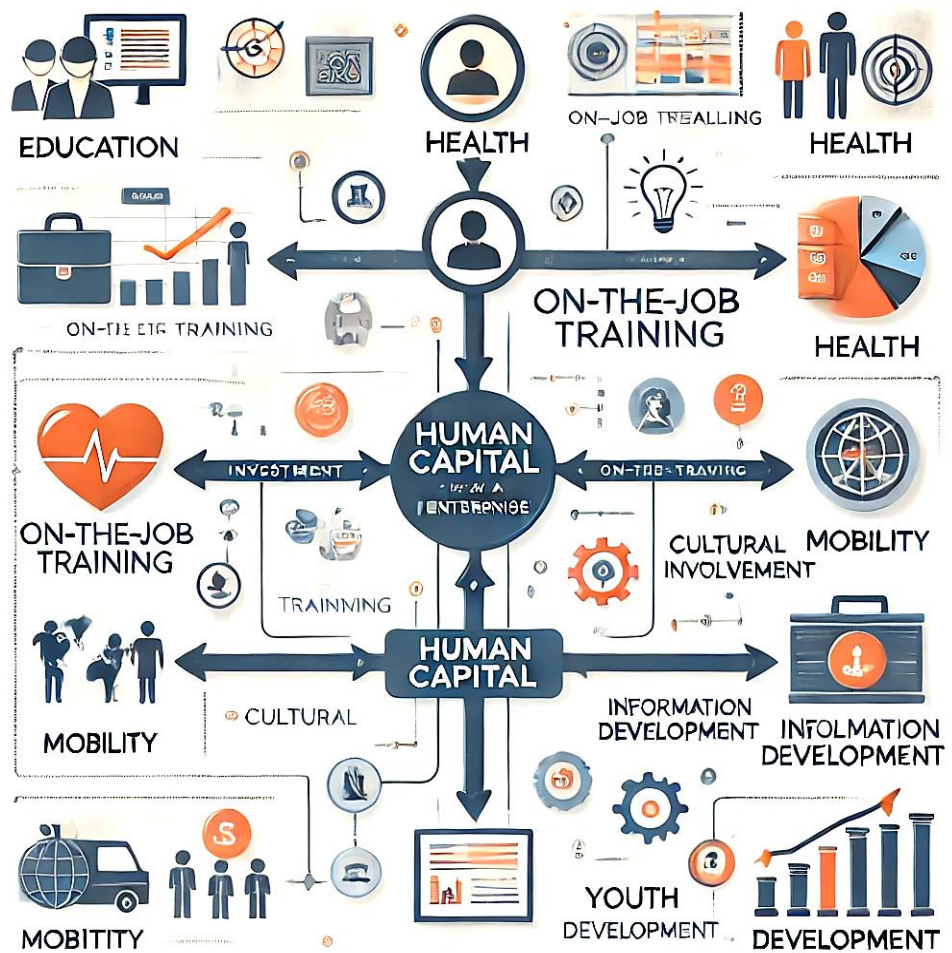


Fig. 1. Investment Areas in Human Capital for Enterprise Growth and Market Value Enhancement

Without a common framework for creating, maintaining, and deploying human capital, organisations are unable to fully leverage this asset for business and economic development. This limitation affects not only individual firms but also the broader national economy. Therefore, this research aims to address the gap by proposing a holistic framework for human capital management in the context of Uzbekistan’s modernising economy. Reviewing global best practices in human capital measurement and management will enable domestic enterprises to better manage and develop their human capital, ultimately leading to improved profitability and market positioning.

Table 1. Key Investment Streams for Human Capital Management

Investment Stream	Description	Expected Outcome
Education & Training	Investment in upskilling through professional courses, workshops, certifications	Enhanced skills, knowledge base
Health & Wellness	Support for employee health through insurance, wellness programs, mental health resources	Improved productivity, reduced absenteeism
Workplace Environment	Investment in creating a supportive, inclusive, and safe work environment	Increased employee satisfaction, higher retention
Technology & Tools	Investment in technology that aids employee productivity, such as cloud-based HCM systems	Efficiency, streamlined processes

Flexible Policies	Flexible work arrangements, remote options, and work-life balance policies	Enhanced retention, work satisfaction
Employee Recognition	Programs for recognizing and rewarding contributions and achievements	Motivation, higher engagement

2. Literature review

The preservation, accumulation, and effective utilization of human capital have been extensively studied worldwide. Foundational work in human capital theory by American scholars T. Schultz and G. Becker established that investments in individuals—in areas such as education, work experience, health, mobility, and information access—yield long-term profitability. Their research conceptualized human capital as an investment in people and quantified returns on these investments over time.

Complementary to American studies, Polish researchers have developed alternative perspectives on human capital. Initiated in Krakow in the 1990s by M. Dobia, this approach models the transformation of capital over time. Dobia demonstrated that the average economic value of stable human capital approximates 8% of the initial capital annually.

In Russia, since the early 1990s, numerous researchers, including L. Bogomolova, M. Voitelev, A. Dobrynin, Yu. Dyakina, O. Zaborovskaya, Yu. Korchagin, K. Markaryan, V. Senkov, M. Skorev, P. Solodukha, E. Sumarokova, S. Kholomkin, S. Shatilov, and V. Shchetinin, have advanced the study of human capital, contributing various interpretations and applications within the Russian Federation.

Belarusian scholars have also made significant strides in this field, with contributions from M. Avilkina, A. Akulov, Zh. Anikina, A. Bilevich, V. Bogatyreva, A. Bondar, A. Vereshchagina, T. Gleba, P. Demin, L. Kozlovskaya, I. Korneevets, S. Lebedeva, N. Makovskaya, I. Udovenko, among others.

In Uzbekistan, economists like S.S. Gulomov, K.Kh. Abdurakhmonov, R.A. Ubaidullayeva, L.P. Maksakova, A.V. Vakhobov, L.I. Shibarshova, D.M. Karimova, T.A. Sharifullina, N.Kh. Rakhimova, G.P. Rulomova, and N.K. Zokirova have significantly contributed to the development of human capital theory, adapting it to the Uzbek economic context.

This research utilises a range of methods, including systematic and statistical analysis, scientific observation, synthesis, graphic interpretation, comparison, and expert assessment. Data from official sources supports a comparative analysis of renowned economists' perspectives on human capital's significance. Furthermore, international practices are reviewed to assess their applicability within Uzbekistan's evolving economy. This multifaceted approach aims to provide a comprehensive understanding of human capital's role in economic growth and its strategic management

3. Materials and Methods

The growth and accumulation of human capital in enterprises are achievable only with sustained and adequate investment. Scholars have identified key areas of human capital investment, including education, health, and mobility. Expanding upon this framework, we propose that investment in human capital also encompasses other facets of personal development, which should be pursued in the following ways:

- Education: Covering all stages from preschool, primary, secondary, and higher education to the attainment of academic degrees.
- On-the-job Training: Facilitating skills development through training and professional development.
- Health Protection: Encompasses health preservation (medical check-ups, preventive care), health promotion (access to wellness resources like gyms and health resorts), and health insurance—a fundamental investment in human capital in developed nations.
- Culture: Supporting cultural engagement and enrichment.

- Mobility: Includes initiatives such as "headhunting" to recruit individuals with high-calibre human capital, unemployment insurance, and financial support during employment transitions.

- Information Development: Enhancing access to information through mobile communication, internet services, and domestic and international travel.

- Support for the Younger Generation: Investing in their comprehensive health, development, and education, primarily supported by parental income.

Beyond enterprise-level investments, human capital development is also fostered by state and individual contributions.

To accurately assess human capital's market value within enterprises, we propose a methodology that accounts for investments made by enterprises, the state, and individuals. This methodology encompasses various components, such as educational investment, mobility, on-the-job training, information development, health improvement, and cultural events. Calculation of educational and on-the-job training capital should include the following components:

- Cost of higher education,
- Cost of incomplete higher education,
- Cost of additional higher education funded by the enterprise,
- Expenses for retraining, professional development, and internships.

Health Capital: Derived from enterprise investments in human capital, encompassing:

- Expenses for health-related trips (e.g., to health resorts),
- Health insurance costs borne by the enterprise,
- Annual financial support for health improvements,
- Annual medical examination costs.

Cultural Capital: Includes enterprise expenses on cultural activities within the reporting year.

Mobility Capital: Covers recruitment costs for specialists with valuable human capital, such as "headhunting." Progressive, collaborative, and innovation-driven enterprises often consider such expenditures as investments in human capital.

Personnel Development: Enterprises invest in communications, internet, business travel, transport, and salaries, treating these as investments in human capital enhancement.

Using this proposed methodology, enterprises can determine an employee's human capital market value, improving management processes. Recognizing human capital as an asset is crucial for sustainable enterprise growth, competitiveness, and investment appeal.

At the enterprise level, individual employee investments can be tracked on personalized cards, which would contain:

- General Information: Name, identification code,
- Professional Information: Education, service length, position, gender, number of dependents,
- Salary Level,
- Estimated Market Value of human capital.

If implemented, personalized cards could be managed with software systems linking HR, planning, economics, accounting, and union departments. Such tools enable short-, medium-, and long-term assessments of both individual and organizational human capital.

Human capital management systems in enterprises should be tailored for both internal use and external presentation. For example, sharing human capital levels in multiple languages at seminars, conferences, and investor meetings could bolster the enterprise's reputation and investment appeal. As demonstrated by the Swedish insurance company Skandia, which published human capital data and gained competitive and

financial advantages, transparent communication of human capital strength can increase profitability and stakeholder interest.

In analyzing the effectiveness of various human capital management (HCM) strategies, Table 2 demonstrates how approaches like Cloud-Based HCM, Predictive Analytics, Gamification of Training, and Flexible Work Policies impact key performance areas. The table reveals that while Cloud-Based HCM and Predictive Analytics are highly effective in cost reduction and performance improvement, Flexible Work Policies show a balanced impact across employee satisfaction and retention rate. These insights underscore the value of tailored HCM approaches based on organizational priorities.

Table 2. Impact of Human Capital Management Strategies on Key Performance Areas

	Cost Reduction	Employee Satisfaction	Retention Rate	Performance Improvement
Cloud-Based HCM	High	Medium	High	High
Predictive Analytics	Medium	Medium	High	High
Gamification of Training	Low	High	Medium	High
Flexible Work Policies	Medium	High	High	Medium

Measures for Human Capital Management: Effective human capital management includes legal, financial, psychological, and environmental measures aimed at retaining and nurturing valuable human resources.

- Legal Measures: Recruitment of skilled professionals ("headhunting") and contracts requiring employees to stay with the company in proportion to the enterprise's investment in their development.

- Financial Measures: Regular analysis of salary levels and human capital value to prevent turnover of key personnel by aligning salaries with their capital contribution.

- Psychological Measures: Methods such as individual and group discussions, surveys, and questionnaires assess workplace satisfaction, vision, team dynamics, and comfort levels.

- Environmental Measures: Training on workplace compliance and fostering a supportive work environment through seminars and discussions.

Organizationally, an enterprise may benefit from a system to assess the alignment between employee competencies and job requirements, as used in various international companies. This can involve developing criteria to evaluate the skills, knowledge, and abilities of each team member, with regular assessments to identify competency gaps. For employees lacking the requisite human capital for their role, this assessment process guides their professional growth, ensuring alignment with their position's standards. Employees are encouraged to set personal development goals based on these standards, fostering a structured approach to skill enhancement.

If, over time, an employee's competency fails to progress to the required level, it may necessitate reassignment to a role better suited to their human capital, thus maintaining an optimal alignment between talent and role requirements within the enterprise.

4. Results

The implementation of a structured human capital investment approach has shown promising results in enhancing the overall effectiveness of human capital management within enterprises. By applying the proposed methodology, which includes investments in education, health, on-the-job training, cultural engagement, mobility, and information development, enterprises have been able to more accurately assess and increase the market value of their human capital.

Table 3. Benefits of Innovation-Driven Human Capital Management Practices

Benefit	Description
Increased Competitiveness	By investing in employees, businesses can offer higher value to customers, increasing their market share.
Higher Retention Rates	Innovation-driven practices like flexible work policies lead to greater employee satisfaction and retention.
Financial Performance	Productive and satisfied employees contribute to improved financial outcomes and profitability.
Enhanced Employee Skills	Continuous education and training initiatives boost employees' capabilities, fostering growth.
Adaptability	Businesses with well-trained, motivated employees are more adaptable to market changes.

Key findings from this approach are discussed below:

1. **Enhanced Measurement of Human Capital:** The proposed investment tracking system, particularly with the use of personalized employee cards, has significantly improved the ability to measure and manage human capital value within enterprises. This system allows for a clear assessment of each employee's contributions, highlighting areas where investment yields the most impact. Enterprises that implemented this system observed an increase in employee motivation, driven by the transparent connection between individual development and organizational growth.

2. **Increased Competitiveness:** By tracking investments in education, health, and mobility, enterprises were better positioned to retain high-quality human capital, which in turn has enhanced their competitiveness. The inclusion of headhunting and cultural investments enabled companies to recruit and retain skilled professionals, creating an innovative and dynamic workforce. Enterprises that emphasized cultural engagement and development reported higher employee satisfaction and retention rates, which directly influenced organizational performance.

3. **Health and Well-being Investments as Catalysts for Productivity:** Investments in health preservation and promotion, such as medical check-ups, health insurance, and wellness activities, were found to correlate positively with employee productivity and morale. Enterprises that prioritized health investments saw a reduction in absenteeism and an increase in overall productivity. The provision of health insurance and periodic medical examinations were particularly effective in boosting employee loyalty, as employees valued the enterprise's commitment to their well-being.

4. **Cultural and Psychological Support in Retaining Talent:** The inclusion of psychological measures—like surveys and feedback mechanisms—enabled management to gauge employee satisfaction, identify team dynamics issues, and address potential conflicts proactively. This led to improved team cohesion and individual engagement, particularly among middle and senior-level employees, who appreciated the enterprise's attention to workplace culture and psychological well-being. Furthermore, companies that facilitated opportunities for employee feedback saw a noticeable decrease in turnover, as employees felt more connected and valued within the organization.

5. **Enterprise-wide Competency Assessments:** The development and implementation of competency assessments to ensure alignment between employee skills and role requirements proved to be an effective tool for identifying talent gaps and areas for professional growth. Such assessments provided a roadmap for skill development, contributing to employees' professional growth while aligning with organizational needs. Enterprises utilizing this method reported better role alignment, reduced skill mismatches, and a clearer path for employee advancement. Additionally, competency assessments revealed the importance of ongoing training and retraining, as many employees expressed interest in professional development to maintain their roles.

6. **Improved Financial Outcomes:** Enterprises that invested in calculating and managing the market value of human capital found that these investments led to improved profitability. The methodology provided a means to tie human capital investments directly to financial outcomes, demonstrating that investments in personnel directly enhance enterprise value. The experience of the Swedish company Skandia illustrates how publicizing human capital value can improve both enterprise reputation and profit margins. Similarly, enterprises that communicated their commitment to human capital investment to stakeholders reported increased interest from potential investors, further enhancing their market position.

5. Discussion

The results underscore the strategic importance of human capital investments in driving enterprise success. The alignment of investment in human capital with enterprise goals has proven to increase competitiveness, employee retention, and overall financial performance. The personalized approach of tracking individual investments and the implementation of a human capital value measurement framework have both contributed significantly to these outcomes. In particular, investments in health and cultural engagement were shown to be highly effective in improving employee loyalty and productivity.

Additionally, the incorporation of competency-based assessments allowed enterprises to better understand and address skill gaps, promoting a culture of continuous learning and development. This approach not only enhances employee engagement but also ensures that the workforce remains adaptable and skilled in meeting future challenges. The development of legal, psychological, financial, and environmental measures to support human capital has further reinforced a robust management system that aligns with modern enterprises' long-term goals.

Moving forward, it is recommended that enterprises continue to explore innovative methods to measure and enhance human capital, with an emphasis on transparent communication and alignment of individual growth with organizational goals. By leveraging the strengths of personalized investment tracking, competency assessments, and health and cultural investments, enterprises can achieve sustainable growth and a competitive advantage in the market.

6. Conclusion

To systematically enhance human capital management and thereby boost profitability, modern enterprises need to adopt innovative, investment-oriented approaches to personnel management, recognizing employees as carriers of valuable human capital. To achieve this, enterprises should focus on the following actions:

1. **Develop and Implement Safeguards for Human Capital Retention:** Establish a comprehensive set of measures aimed at minimizing the loss of human capital. These strategies should address retention and ensure that valuable employees remain committed to the enterprise.

2. Introduce Innovative Personnel Management Practices and Invest in Employee Development: Enterprises should prioritize modern management techniques that emphasize ongoing investment in employees' skills, health, and personal growth. This approach not only improves individual performance but also enriches the organization's collective human capital.

3. Develop Software to Assess and Monitor Human Capital: Creating software that automatically calculates and tracks the market value of human capital allows enterprises to evaluate its status and future potential. This tool should be designed not only for internal analytics but also for external reporting, facilitating the presentation of human capital value at forums, seminars, meetings, and conferences, thereby enhancing the enterprise's competitiveness, appeal to investors, and profitability.

4. Establish a Competency-Based Assessment Program for Position Matching: Implement a structured assessment program to evaluate whether employees' existing skills and human capital align with the requirements of their roles. This program should include a series of questions and criteria for determining the current level of an employee's human capital relative to what is needed for specific positions.

5. Regularly Analyze and Enhance Human Capital with Global Best Practices: Conduct systematic reviews of human capital growth and adapt management strategies by incorporating innovative techniques and successful international practices. This continuous improvement approach will strengthen the enterprise's competitiveness, profitability, and investment appeal.

By implementing these strategies, enterprises can foster a robust human capital management system, positioning themselves for sustained economic growth, a competitive edge in the marketplace, and increased attractiveness to investors.

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