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## The Impact Of Human Capital On Labour Market: Lithuanian Case

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### Abstract

The labour market analysis with parallel determinants of the investment in human capital, specify the necessity to incorporate both internal and external labour markets (internal and external factors) and its mutual interaction. Internal labour market reflects the particular company's or organization's labour supply, demand for employees, the search strategy, approach to an employee. In its internal labour market company specifies employee's assignment for specific duties and responsibilities (micro level). Conditions of employment depends on the company's ongoing strategy, i.e. whether the company invests in its employees' human capital, their qualifications, training, establishment of career development opportunities, and efforts to reduce employee turnover, etc. Internal labour market contributes to the objective of maintaining staff: the employee will not look for another job if feels safe and valuable for an enterprise. Labour market and human capital are interrelated very closely. Wages depends on investment in human capital. Human capital consist of knowledge, skills and other characteristics (congenital and acquired), which depends on the individual and is determined by its productivity. The recognition that human capital is determined by an individual's ability to meet the labour market conditions, stands for thinking that years spent for studying, attending courses, training and others are appropriate investment for future – for the development of human capital.

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### 1. Introduction

Political, economic and social reforms which started in Lithuania in the beginning of 1990 conditioned essential changes in all spheres of social life, business and the field of paid jobs: the decline of manufacturing inevitably

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influenced the number of employed people and the growth of unemployment. 4 Structural changes in society's employment were the outcome of privatization and economic modernization processes. New employment groups according to economic status such as employers, self-employed and employees emerged. The demand of skilled employees increased. Due to changes in labour market, the requirements for skills and qualifications were altered, thus encouraging individuals to make a decision to invest in education. Labour market is the mechanism where individual labour is bought and sold as a commodity: it is a tool that enables to compare the demand and supply for labour. The labour market systematically examines the relationship between employees and employers. It is critically important for the company to choose the particular individuals with appropriate skills, knowledge and abilities, aiming to succeed in the job market. Particular business strategies should be established with the purpose to acquire the required labour power. The aim of the article is to analyse the impact of human capital on labour market and highlight key indicators that influence upon the labour market. Methodology: systematic and logical analysis of scientific literature and generalization, statistical analysis and case modelling was used. Results: analysis of Lithuanian labour market in conformity with the education system was performed, parameters which influence the labour market were distinguished, assessment model for employment market formation was developed and an examination of its applicability in Lithuania was carried out.

## 2. The analysis of labour market structure

Since labour market is an open system, its openness of functioning is affected by different factors. These factors can be identified as internal and external (Martinkus & Beržinskienė, 2005). Internal factor include information about labour market demand, job seeking intensity, employee's competitiveness, employer's flexibility in terms of workplace and contract conditions. External factors include structural changes of labour resources, country's economic situation (GDP, inflation, unemployment rate, etc.). The abovementioned groups of factors are reflected by different macroeconomic and social indicators. A change in these factors changes the situation in labour market. Therefore, analysing the labour market, it is necessary to take into account all the main factors and their reflective indicators. The labour market and human capital are very closely linked. The internal labour market reflects a labour supply of a particular company or organization, a demand for labour, job search strategy, approach to the employee. Internal labour market is a micro environment, where company's internal situation is analysed, employees are assigned specific duties and responsibilities. For an individual seeking to enter the labour market it is very important whether the investment in human capital pays off, whether there is an opportunity of development. In the analysis internal labour market can be divided into two parts (Riley & Szivas, 2009): a weak and a strong internal labour market.

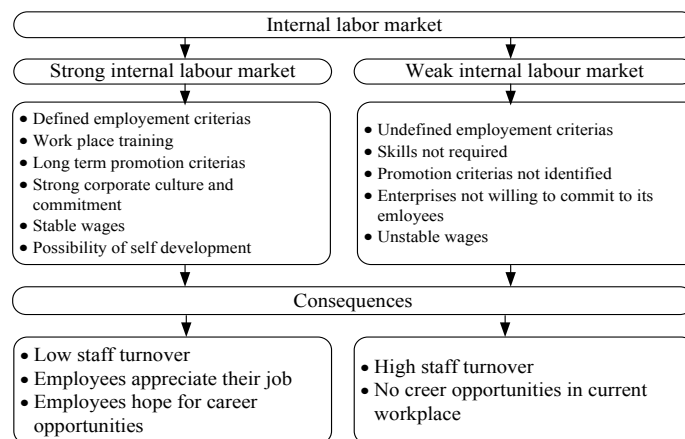


Fig 1. The assessment characteristics and consequences of internal labour market

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