

# Institutional Determinants of Forming the Management Capital: A Case of Ukrainian Healthcare Sector



Safonov Yurii, Borshch Viktoriia

**Abstract:** Medical establishment is a complex socio-economic system, whose sustainable development should be ensured by the modern management practices. Problems of management of medical establishment have not been still considered in the context of the current reformation of healthcare sector and still this social and economic field does not report to the conditions of market mechanism. The main goal of this paper is to analyze a structure of total capital of modern medical establishment and the place and role of managerial capital in this structure. **Methodology.** This study combines economic analysis of concepts of total capital, physical capital, financial capital, intellectual capital and managerial capital. In this study complex of the general scientific and special research methods were used to achieve the goal of the study. The method of logical analysis of the literature was used. The structural analysis was used with purpose to generate the structure of total capital and its key elements of medical establishment. Method of summarization was used to make a conclusion. Scientific works of national and foreign leading scientists in this sphere were used as the informational basis for the conducted research. **Findings.** In the paper the issue of managerial capital of a medical establishment as a complex socio-economic system is researched. A structure of total capital of medical establishment with its main components, such as physical, financial and intellectual capital, is proposed. In their turn, the theoretical concept of intellectual capital considers the following its elements: human capital, organizational capital and consumer's capital. Managerial capital is viewed as a meta-capital within the frameworks of proposed structure and is an effective management tool for medical establishments' business processes and qualitative composition of all types of capital, which pursues the sustainable development of medical establishment. Main tasks of formation, development and reproduction of managerial capital of medical establishment are researched. Also the issues of institutional environment of forming management capital are researched. Key institutional determinants, such innovation, investment and structural mobility are considered. Practical implications. In the conditions of creating by Ukraine the new national healthcare system the issue of formation and development of managerial capital in healthcare sphere is of great importance. It should be considered in the current process of Ukrainian healthcare system's reformation to avoid the mistakes.

**Value (originality).** The results of conducted research could be a framework for formation of managerial capital of the medical establishments with the purpose to ensure their constant development. The main issues, which are proposed for working out the Concept of national healthcare system development, should be taken into consideration by the Ministry of Health of Ukraine and state and municipal Health Departments to implement them during the process of Ukrainian healthcare sphere's reformation.

**Keywords:** Determinant, Institutionalism, Health Care, Healthcare Institution, Management Capital.

## I. INTRODUCTION

Health care is central for the society's development, which is determined by the fact that health, directly affecting economic and social well-being, is an important factor in the country's national security. On this basis, the state should focus on the development of social policy, taking into account the levers of the market mechanism and supporting them with timely and sufficient financing of health care.

However, the mere introduction of market relations in the health field does not automatically encourage increase of its efficiency. So, there is a need for an adequate response of the healthcare management system to changes in external and internal factors that determine the organization and efficiency of the industry.

In today's healthcare system, there is a need to create an economic management mechanism in which each of the staff of the health service, the workforce of the healthcare institutions and the entire human resources of the industry as a whole would be materially and morally interested in achieving high outcomes. Such a mechanism should be based on economic relations of economic entities, which are more advanced than in planned economy; it has focus on new forms of organization of medical, preventive and other medical activities. It needs to be a more sophisticated diversified system of financing the industry and to have new organizational structures of healthcare management and mechanisms for managing institutions in the industry. It therefore necessitates forming the managerial capital.

## II. RESULTS

Health care is one of the most important elements of social production and the national economy (it provides public health and influences the process of formation and development of the country's human capital).

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The emergence of health management and its development occurred under the transition of the economy to market conditions. However, the improvement of management processes in the national health sector has been carried out through economic experiments that have allowed some socio-economic effects to be achieved through the use of financial and economic mechanisms. The economic components of Ukrainian old healthcare system with total state ownership do not take into account management approaches. Thus, the task of the current stage of development of the healthcare industry is to formulate such a development strategy and adjust it so that it can maintain the balance of interests of the population, the state and healthcare institutions. In this regard, attention should be paid to the formation and development of the management capital of the industry as a whole and of healthcare institutions in particular.

Healthcare institutions are enterprises, institutions or organizations whose purpose is to meet the diverse population's need in the field of health care through the provision of healthcare services, based on the professional activity of medical workers [1].

Also this term covers a complex socio-economic system that has the material, monetary and labor resources to meet the needs for medical services. Managing them, in this opinion, means taking a certain type of interconnected actions to create and use these resources to achieve the goals and achieve not only medical and social, but also economic efficiency by striking a balance between income and expenses.

If we consider the structure of the total capital of any organization, there are three main groups:

- 1) physical capital;
- 2) financial capital;
- 3) intellectual capital.

### A. Physical capital

In economic theory, physical capital refers to a productive resource created by a person consisting of a fixed asset (i.e., production assets that are repeatedly used in the production process: buildings, structures, machines, machinery and vehicles, etc.) and current assets (production assets fully used in one production cycle: stocks of raw materials, semi-finished products, etc.).

### B. Financial capital

Financial capital is prominent among other types of capital. There are many interpretations of this type of capital. We adhere to the following: financial capital is a sum of capital in the form of cash and liquid financial assets: stocks, bonds and other securities [2]. The structure of the financial capital of the enterprise is represented by a share of its constituent elements in the total amount of attracted sources of funds used for financing economic activities [2].

### C. Intellectual capital

Intellectual capital is a collection of intangible assets that can be used to create value and without which an organization cannot exist and grow. Intellectual capital combines not only knowledge, but also moral values, image of the organization, its organizational structure, information system, data banks, customer loyalty, etc. [3]. Thus, intellectual capital is inherent

in the diversity of its elements, and their nature is different, unlike physical and financial capital.

The components of intellectual capital are (a) human capital, and (b) structural capital, namely organizational-managerial (organizational) and informational (consumer) capitals.

According to the theory of human capital, *human capital* is defined as a set of knowledge, skills, abilities, motivations and energies acquired in the learning and practice of an individual who uses him / her over a period of time to produce goods and services that allows him / her to earn income, and to the business entity to be profitable. Thus, the modern economy treats human capital as an asset that converts acquired human potential into benefits and commercial aspects of economic entities, socio-economic aspects for the state, and status and material effects for human potential carriers [3].

Accordingly, human capital is an essential value of an organization because it includes the wealth of knowledge, education, practical skills, creative and mental abilities of people, their moral values, motivation, cultural level, which are used by an individual and the organization to obtain economic impact. Thus, human capital is a form of capitalization of human potential.

Human capital possesses full spectrum of the structure-forming intellectual capital's attributes: the capacity for self-growth, investment nature, involvement in market exchange relations.

Human capital is inextricably interlinked with intellectual capital, which is embodied in the wealth and flow of knowledge, creative abilities, experience of solving innovative problems, culture and motivation of mental work, which are used in practice and increase the income of the individual, firm and society. At the same time, individual intellectual capital is an integral part of the personality of a specialist, manager, innovator, which is used in the activity process as "rented" from hired employee (an organization does not have right to own it). Consequently, intellectual capital plays an important role in the organization, which, in the form of technological and organizational development and other types of specific intangible assets, remains in its ownership even in a case, when individual employees move to competitors. However, its main function is to ensure the organization's expanded reproduction of capital by forming the required knowledge systems, which contribute to high-performance economic activity. In fact, it is the intellectual capital that determines the pace and nature of innovations in management, technology and production that determine its competitive advantage in the market.

Other components of intellectual capital and total capital, created by human capital, in general, allow an organization to obtain financial, technological, industrial and other competitive advantages.

*Organizational capital* has two functions: (a) the knowledge generation as a basis for activity and (b) the acceleration of information flow in the organization. Organizational capital includes corporate information systems, databases,

hardware and software, organizational structures, copyrights, patents, know-how, licenses, and corporate culture. It includes a number and a quality of business partners, a flexible and efficient business network, procedures for the transformation of tacit knowledge into explicit, quality of network interaction, intellectual property, etc. [3]. Therefore, organizational capital is related to the organization as a whole and makes its work in general possible. It is owned by the organization and can be a relatively stand-alone purchase item [4].

This form of capital is accumulated in the process of formation and development of information systems, by processing organizational and management procedures, and also in the process of forming a positive corporate culture. Its value is determined by the efficiency of its use.

Its main tasks are:

- a) to create conditions for use and improvement of two other elements: human and consumer capital;
- b) it is responsible for the use of human and consumer capital on purpose of data transformation [3].

*Consumer capital* (customer or capital of relationships – in a case, when the capital includes not only customer relations, but also with other counterparties, including suppliers, competitors, affiliates, authorities, etc.) is defined as a set of the organization's relationships with consumers based on a history of relationships, accumulation and constant updating of information about customer. The essence of these relationships is conveyed through relationships with consumers, suppliers, competitors, etc., as well as through brands, trademarks, and image of the organization. That is, consumer capital is a number and a quality of an organization's loyal clientele [3].

The importance of an organization's consumer capital lies in a fact that it provides an organization with a competitive advantage in relation to the external environment [4].

### C. Total capital of healthcare institution

The structure of an organization's total capital, presented above, is also inherent in healthcare institutions, regardless of their organizational and legal forms and types, since the healthcare institution is a complex social, production and economic system, which carries out activities: (1) production, (i.e. provision of medical and pharmaceutical services, manufacturing of pharmaceuticals, medical equipment and equipment) by guaranteeing the provision of medical care approved at the legislative level; (2) research one within the framework of applicable law with a purpose of profit and nonprofit activities; (3) financial; (4) insurance; (5) trade through sale and purchase of medical supplies.

The structure of the healthcare institution's total capital is presented in Fig. 1.

All the elements of the total capital of a healthcare institution, presented in Fig. 1, interact with each other. Knowledge and abilities of employees of healthcare institution are embodied in organizational processes. Partner relations create a base for close and continuing relationships with clients and patients. Collaboration with clients, patients and partners helps build experience, develop employees' knowledge and abilities. Due to the financial capital in the conditions of healthcare institution's autonomy, investments are placed in fixed and operating capital of the institution, in innovation and development, in the staff's professional development of the healthcare institution, etc.

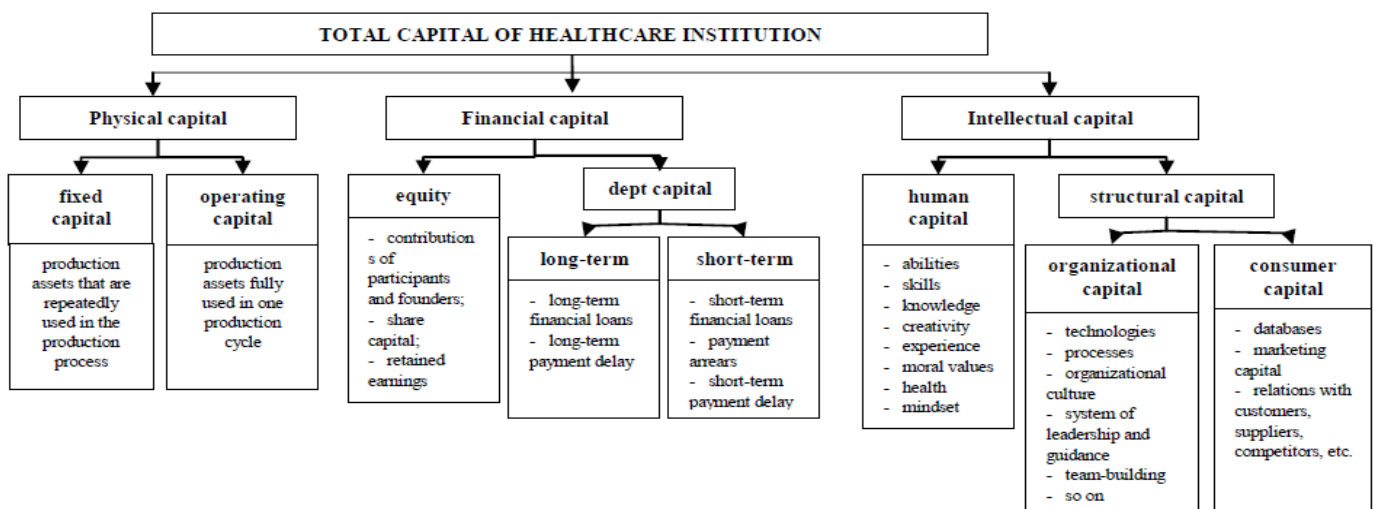


Fig. 1. Structure of total capital of healthcare institution. (formed by authors)

### D. Concept of managerial capital

However, for their effective interaction, there must be something, namely a tool that influences the quality process of this interaction and manages all business processes. In our opinion, such a "control lever" is a management capital, which serves as "meta-capital" in the structure of the organization's total capital.

In strategic management, a meta-strategy is usually defined as a higher-level strategy, i.e. a "strategy managing a strategy" [5].

By analogy with strategic management, we can say that management capital acts as a qualitative, effective tool for managing all business processes of a healthcare institution and a quality composition of all types of this institution's capital. This ensures the sustainable development of the institution. Concept of management capital is based on an understanding that management knowledge, competences and vocational experience of any organization have to be profitable.

Thus, it is necessary to form and use a mechanism of its expanded reproduction using the innovative factors of socio-economic development [6].

Management capital, as well as physical capital, must operate in the system of capital circulation and result in increased profits. Thus, the effectiveness of the line and functional services, responsible management staff and the overall management structure should be quantified in order to evaluate and analyze its impact on the organization's profits.

The accumulation of management capital, in our opinion, has a dual nature. On the one hand, it is a process of increasing knowledge, developing professional competences, experience of management personnel, and their professional forces. From this perspective, accumulation characterizes human interaction with the environment in the process of intellectual and cognitive activity necessary to meet the vital needs of man and society. On the other hand, the accumulation of managerial capital has a socio-economic determination aimed at achieving socio-economic quality [4].

Since self-growth of management capital is achieved through intellectual work, the goals of management capital's accumulation are:

- 1) creating value-added;
- 2) ensuring the reproduction of the innovation process;
- 3) obtaining competitive advantages in the competition in the market;

4) creating conditions for the development of intellectual strengths and abilities of a person and society;

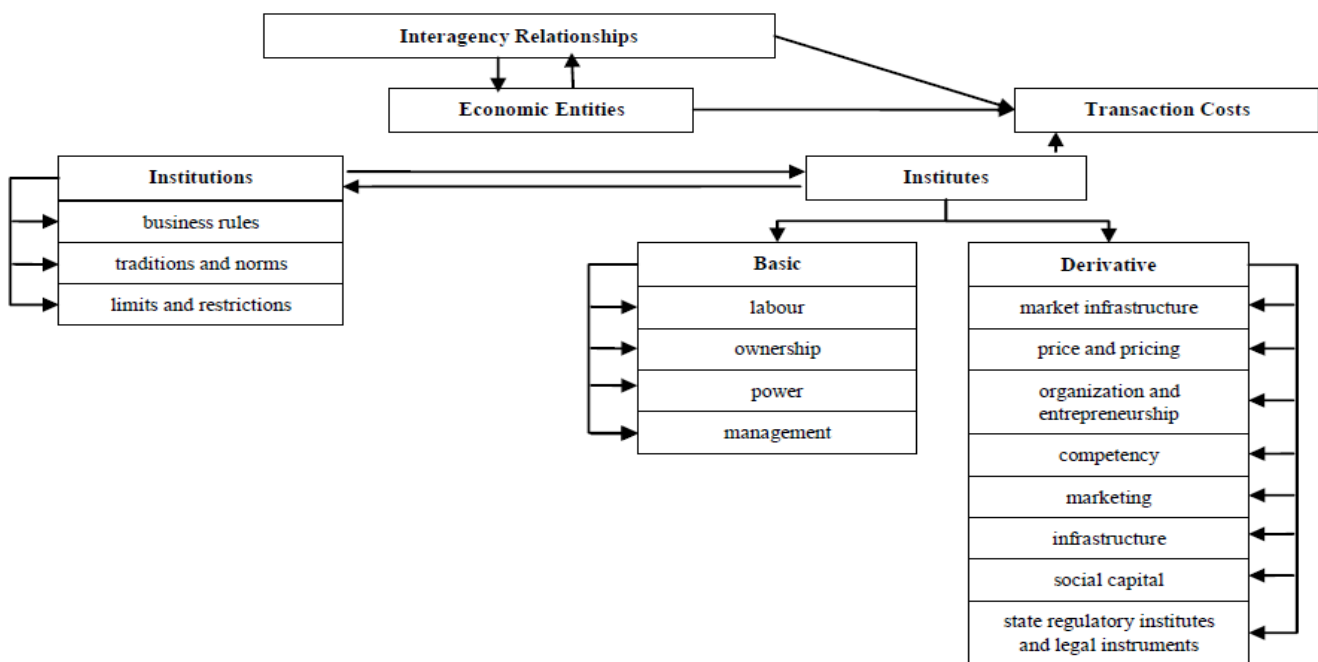
5) ensuring the quality of management for all business processes.

Therefore, ensuring the qualitative formation and use of the total capital of the organization is the main task of management capital, which guarantees the sustainable development of the organization in the future.

**E. Institutional determinants of management capital**

Process of formation and development of management capital in health care is connected with structural changes of this socio-economic sphere. Hence the theory of structural transformations, proposed by D. Norton, is very urgent for this topic. It links the structural changes in the country's economic development with progressive restructuring institutional bases of national economy [7].

In Ukraine the process of establishment of institutional environment of the national economy is still taking place. Economic institution is formed rules, norms and traditions; institutes consolidate and direct activity of different economic subjects, i.e. formations, such as ownership, economic mentality, legal and institutional structures, organizations and enterprises (see fig. 2).



**Fig. 2. Hierarchy system of economic institutions and institutes in healthcare market. (formed by authors)**

In the long term, the formation of the institutional environment in the healthcare sector is impossible without creating the basic conditions for the development of entrepreneurship, protection of property rights, support of innovation, improvement of innovative infrastructure and international cooperation in the field of medical and pharmaceutical innovation. An element of the new institutional environment with a purpose of formation management capital should also be a set of economic policy

measures to stimulate development of health care, reformation of higher medical and management education, medical and pharmaceutical innovation, technological and technical modernization of health care. Also the process of cooperation business, practice and education in the field of medicine and management should take place. Classification of the factors that determine the pace and quality of formation and development processes of management capital derives from its criteria and contains the following groups:

- 1) innovative, related to the upgrade of technologies, use of the country's innovation potential, determining the priorities of scientific and technological progress;
- 2) investment, which is determined by investment activity, efficiency of capital investments, updating of production funds and their use taking into account the resource constraints on the part of the investment complex;
- 3) structural mobility of the economy and socio-economic sector, its ability to respond to changes in the size and structure of public needs, both in the current and in the future.

Formation and development of management capital is multidimensional process, which covers development and reformation of Ukrainian health care and socio-economic growth of the country. Nowadays, the source of economic growth is not only innovation and investment factors and structural mobility of the economy, its ability to respond to changes in the size and structure of public needs, both in the current and future periods, but also institutional factors (institutional structure and institutional environment).

Institutional boundaries can both positively and negatively affect process of forming and developing management capital. The pace of development of the institutional environment in Ukraine is far behind the pace of development of other components of the market system, and the poor quality and lack of reliability of existing institutions is a bottleneck to sustain economic growth, it hinders business development. In addition, the nonlinear nature of the transformation processes, the existence of institutional contradictions and "pitfalls", as well as the lack of clarity and consistency in determining the nature of the mutual influence of formal and informal institutions, suggests that the forms and mechanisms of resolving institutional contradictions and finding sources of economic contradictions in Ukraine should become the main objects of research for professionals and government officials today.

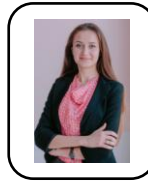
### III. CONCLUSION

Institutional determinants provide depth and dynamic of quantitative and qualitative structural transformations at national and regional levels. The main role in progressive structural changes should be played by structures that have structure-forming motives. The state structural policy should be ensured by the corresponding changes in the institutional environment. Priorities for state support for transformation of health care should remain in those economic entities that have a real chance of increasing national and international competitiveness.

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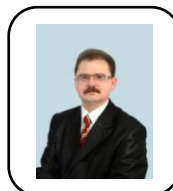
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