

## A Definition of Labor Capital from a Social Perspective

### Hacia una definición de capital de trabajo desde la perspectiva social

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#### ABSTRACT

**Aim:** An alternative definition to labor capital from a social perspective is suggested.

**Methods and techniques:** A qualitative non-experimental methodology characterized by analysis of the state of the art in relation to labor capital was put into practice, together with a context analysis in which companies develop their actions as a trend of development, which is part of corporate social responsibility. The technique used was content analysis.

**Main results:** A definition of labor capital was made from a social perspective, in keeping with current trends in entrepreneurial activity, which include attachment to corporate social responsibility, and the main existing contributions to define labor capital based on the analysis of different criteria.

**Conclusions:** A definition of labor capital was suggested in the form of a holistic combination of three perspectives (accounting, financial, and managing), plus a fourth perspective (social).

**Key words:** labor capital; social perspective; corporate social responsibility.

## RESUMEN

**Objetivo:** Se propone una definición alternativa de capital de trabajo la cual contempla la perspectiva social.

**Métodos y técnicas:** Se aplicó una metodología de tipo cualitativo, no experimental, caracterizada por el análisis del estado del arte sobre el capital de trabajo, conjuntamente con el análisis del contexto en que las empresas desarrollan su actividad, donde se destaca como tendencia de desarrollo, la responsabilidad social empresarial. Se utilizó la técnica de análisis de contenido.

**Principales resultados:** Se elaboró una definición de capital de trabajo desde la perspectiva social, en correspondencia con las tendencias actuales de desarrollo de la actividad empresarial, que incluyen el demandado apego a la responsabilidad social empresarial, y las principales aportaciones existentes para definir el capital de trabajo a partir del análisis de diferentes criterios autorales.

**Conclusiones:** Se propone una definición de capital de trabajo, como una combinación holística de tres perspectivas (contable, financiera y gerencial) además de una cuarta: la social.

**Palabras clave:** capital de trabajo; perspectiva social; responsabilidad social empresarial.

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## INTRODUCTION

Business activity generates positive and negative impacts on the environment, labor, and society; in the late 1990s and early 2000s, organizations began to focus on these aspects.

In addition to the previous, the advancement of the information and knowledge society (SIC) in this century has created a strong impact on the progress trends in business, considering that knowledge is the main asset that generates competitive advantages, together with the emergence of a number of organizations that seek sustainable development; it represents an increase in the quantity of companies that express their social and environmental commitment to the implementation of business social responsibility (BSR).

In this new context, business policies and strategies should be aligned to the new trends. However, many concepts and definitions have not been evaluated in light of these changes, the main reason why this study is done, whose aim is to propose an alternative definition of labor capital, which comprises a social perspective.

The research conducted by Ortiz, Gámez, Nelito, and Fernández (2017) was used as the background for this study.

A suitable qualitative methodology was used to fulfill the aim of this study. Different moments from several research viewpoints were evaluated, with the analysis of the state of the art of labor capital, along with the current context in which companies operate, in order to contextualize the ruling conceptions, based on a rational standpoint. The rationale of this research was based on papers about labor capital, BSR, and the current trends of business. The content analysis technique, widely used in qualitative research was used, which according to Andréu (2018) “(...) is based on reading (textually or visually), as a tool to gather information, which apart from the regular reading, should be done according to the scientific method; it must be systematic, objective, replicable, and valid (...)” (p. 2). Nevertheless, what characterizes content analysis, and differs from other research techniques, is that this technique combines observation and data production intrinsically, and data analysis or interpretation, which makes it complex.

## **DEVELOPMENT**

### **Current development trends of business activity**

Based on research done by Naranjo (2001), Sáez, García, Palao, and Rojo (2003), and Díaz (2015), the main current business trends were identified.

- Customer-oriented policy: A change of paradigm has been observed, from product or service orientation to customer orientation. Today, customers are the key to success in business; hence, companies tend to focus more on enhanced buying with the aid of artificial intelligence systems, chatbox, and data mining.
- Competitiveness and cooperation: An implacable fast increase in competitiveness has been taking place. It comes as the number of companies have grown, which through different types of cooperation, join forces to obtain business benefits that would be impossible to reach on their own.
- Innovation: Technology sets the progress of business innovation trends, as it conditions the daily lives of people; companies focus on the perfection of their products, services, and management, relying on computer techniques, cloud computing, process automation, and robotics, just to mention a few.
- Importance of tangibles in business management: The economy of knowledge takes over the economy of traditional services, as the driver of knowledge. Knowledge becomes the main asset of competitiveness. A tendency to invest in this intangible asset, and concerns over competent employees in terms of knowledge, skills, and abilities, has become apparent.
- A new conception of human resources management: Human resources management represents a transcendental change, as the variation of the approach of labor post to natural team work area, change in the paradigm from chief to leader, predominance of team work to solve company problems, strategic management approach aided by managing tools that enable smart and intuitive real-time data reading and interpretation that ensure analysis and business dynamics, plus the managing capacity to concert technology and employment, working hours flexibility, teleworking, and so on.

- Social commitment and sustainability: In this century, BSR has been acknowledged by reputed authors and international organizations as a fundamental part of business management. In recent years, it has become more involved, due to the current importance and urgency of factors like the fight against climatic change, infant labor, gender inequality, and other forms of labor discrimination. Also relevant is the enactment and enforcement of labor standards, equity, and sustainable development. Accordingly, a growing number of companies are relying on BSR. Moreover, consumers tend to punish organizations that lack responsibility toward groups of interest, the environment, and society, on a planet where sustainable development is trendy in the field of business, when new ideas are gaining momentum.
- Digital trust and transparency in data usage: Every time, more regulations and norms are implemented with the end of protecting information and confidentiality of customer data. In a completely digital universe, safe data storage and handling is a priority and cost task to be considered by companies, regardless of their size.
- Fulfillment of regulations: Today, companies are exposed to several different directives and standards, so having managing tools that can be quickly and easily adapted to the new regulations to prevent risks of lack of fulfillment, and limit administrative tasks, is important.

An analysis of previous tendencies was performed, which resulted in the recurrence, in content and expression, of the direct or indirect presence of the social dimension, as an important internal and external part of business development. It can be seen in practice, in the following elements:

- Nowadays, customers, as the final destination of a good or service, are key to business success.
- A strong trend to establish cooperation among companies seeking stronger positions, in terms of benefits, and dealing with implacable competition. A need for team work apparently solves problems.
- Knowledge, the main intangible asset of competition, along with experience and innovation, are the pillars of intellectual capital in the company, which decide the

success of an effective administration. This asset transforms human resources management today.

- Becoming digitally confident and transparent in data usage, and the compliance of business norms, lies essentially, according to this research, on the quality, feeling of belonging, and permanence of a professional and social ethics of the employees, generally.

### **Labor capital and definition**

Labor capital is a widely dealt with topic in the scientific and related literature. Among different standpoints the following stand out:

Weston and Brigham (1994) claim that labor capital is the investment made by the company in short-term assets (cash, negotiable values, collectible accounts, inventories), always considering that administration determines a company's liquidity. Alborno (2006) asserts that labor capital is the labor assets (involving investment of the company in current or circulating assets).

Perdomo (2000) and Gallagher, and Andrew (2001) define it as part of the circulating assets funded with long-term loans. The term circulating means all the assets the company expects to turn into cash during a period. Circulating assets include cash, inventory that generate cash when items are sold, and collectible accounts, which produce cash when customers cancel their accounts. Gitman (2007) noted that labor capital is the part of circulating assets funded with long-term funds, by considering that the resulting amount from the difference between the circulating assets and liabilities (net labor capital) should be financed with long-term funds, since it is considered part of the circulating asset.

Moreno and Rivas (2003) pointed out that labor capital represents the short-term financial cycle of the company, which can be defined as the average time elapsed between the purchase of materials and services, their transformation, sale, and finally, recovery as cash. Ortega (2008) said that it is the part of capital or investment the company operates with, so the lower it is, the greater the cost-effectiveness, and the lesser the bankruptcy risk.

Selpa and Espinosa (2009) consider it as the investment in circulating asset levels needed to hold the level of company operations. Meanwhile, Chagolla (2011) defines it

using an accounting point of view, as the arithmetic difference between the circulating assets and liabilities.

The study and analysis of the definitions given by the previous authors helped provide a rationale of the findings of Ortiz, Gámez, Nelito, and Fernández (2017), in terms of the existence of three perspectives in the traditional treatment of labor capital.

- The accounting perspective: It is the most commonly known, both in academic circles and in social practice; it stems from the definition of labor capital as the difference between the company's circulating assets and liabilities in the short term. Based on this perspective, the greater the margin in which the circulating assets cover the circulating liabilities, the greater organizational capacity to pay their debts as they expire. This is a quality definition, which ultimately represents a reason for operational financial stability that is commonly used by accountants, as it is expressed through items of financial reporting. The study and analysis of this perspective will always have an operational approach, and will rely on the opinion that it is necessary or not for the company, according to the type of activity run, keeping or not the level of assets and liabilities that participate in the difference that results in labor capital at a given moment.
- The financial perspective: It stems from the assumption that labor capital is the proportion of circulating assets funded by long-term funds. Long-term funds are the sum of liabilities and the social capital of a company in the long term, so it is related to financial risk measurement of lack of payment capacity or insolvency, since the greater the participation of long-term sources takes place in funding the current asset of a company, the lower the business risk. Based on this standpoint, management should make decisions with an essentially non-administrative financial approach, in the search for consensual opinions about what is most beneficial or not, which will always be backed by the need of increasing financial returns.
- The managing perspective: It considers that labor capital is made of resources required to develop the normal operational cycle of a company or current operations. These resources are known to be made by availability, collectible

accounts, and inventory, which is represented by the current or circulating assets in accounting.

Coinciding with the above authors, it was assumed that both in practice and in the academy, these conceptions are seen individually, having little interaction. One or the other are regularly observed more or less strong, depending on the type of scenario and the actors present at the moment of conducting a variety of research studies in relation to labor capital.

Upon analyzing labor capital today, the development trends of this activity must not be overlooked, since they recognize social development and sustainability in business management, based on the development and implementation of BSR.

This trend to favor the promotion of good business practices in terms of environmental protection, human rights, and labor standards, has been developed since the 1990s with various initiatives internationally, to stimulate companies to adopt BSR. Since the beginning, the present century has been characterized by a strong BSR approach.

But, what is understood by BSR?

A BSR concept analysis was first defined by Bowen (1953), who referred to it as “the obligations of entrepreneurs to implement policies, make decisions or follow lines of action desirable in terms of objectives and values of our society” (p. 6). Later, Carroll (1979) said, “It comprises the economic, legal, and discretionary expectations of society in a given moment” (p. 500).

Boatright (2000) claimed that it is a voluntary adoption of responsibilities that go beyond merely economic and legal responsibilities of the company.

Well-known international organizations have also referred to BSR. The European Community Commission (2001), for instance, defined it as the voluntary integration by companies, of social and environmental concerns in their commercial operations, and their relationships with their partners, and conceives it as “a business contribution to sustainable development” (p. 7).

Later, Franco (2002) recognized BSR as a freely chosen philosophy, turned into a strategic managing process that relies on ethical leadership of the members of an entity, and the expectations of each shareholder. Accordingly, BSR contributes to sustainable



development, the improvement of people's living conditions, and company competitiveness.

Cuesta and Valor (2003) sustained that BSR is the set of legal and ethical, national and international obligations and commitments to stakeholders, derived from the impact of the activity, and operations that organizations produce in the social, labor, environmental, and human rights scenarios. Besides, the Spanish Association of Accounting and Business Administration (AECA, 2004), pointed out that it is the voluntary commitment of companies to the development of society, and the preservation of the environment, based on their social composition and responsible behavior to people and social groups of interaction.

Vives (2004) noted that

(...) CSR [corporate social responsibility]<sup>1</sup> consists in practices of a corporation that, being part of corporate strategy that complements and supports the most important business activities, seeks to avoid damage, and promotes stakeholder well-being (customers, providers, employees, funding sources, the community, government, and the environment), through the compliance with rules and regulations, and goes beyond them voluntarily. (p. 1)

The international Standardization Organization (ISO, 2010) facilitated the consensus, for the first time, by defining BSR as the responsibility of an organization for the impact of their decisions and activities on the society and the environment, through transparent and ethical behavior that contributes to sustainable development, including health and well-being of the society. It considers the expectations of stakeholders; conforms to enforced law, and agrees to the international norms of conduct; and it is integrated to every organization, and practiced in their relationships.

Since the contribution to sustainable development is defined as an essential purpose of BSR in the company, three dimensions of economic sustainability are assumed: economic, social, and environmental for development. "The success and sustainability of companies are in concert with their social, productive, and environmental ecosystems" (Licandro, 2016, p. 107).

From the previous conceptualizations and approximations, BSR emphasizes on the impact of business activities on their stakeholders: employees, suppliers, customers, consumers, collaborators, competitors, governments, and communities. This concept is associated to the recognition that decisions and results of business activities are beyond the sole objective of obtaining economic and financial returns, reaching or impacting a broader group of agents than the proprietors, which extends the reach of their commitment, by strengthening their general projection and responsibility to the society. Nowadays, these intangible assets are more important than the traditional tangible assets, since they can generate reciprocity behaviors by stakeholders that can be translated into company benefits that favor their long-term sustainability.

According to this BSR analysis, and the traditionally used definitions of labor capital, it was evidenced that the latter lacks a social perspective. However, they have demonstrated a current trend in the development of business activity, which calls for the need of introduction as a way of contributing to the contextualization of the definition of labor capital, integrality, and clarification.

Considering the three perspectives used today, and according to the main BSR and business development conceptions commented on before, the authors of this paper have defined labor capital taking into account a fourth perspective: social, as one which is part of the current asset and funded by long-term funds, whose objective is oriented to completing the operational cycle of a company based on corporate social responsibility, expressed in accounting (this labor capital) in the equation circulating asset minus circulating liabilities. This expression is a measure of the financial risk of lack of payment or insolvency capacity.

## **CONCLUSIONS**

The analysis of different positions found in the literature, as to the definition of labor capital acknowledges the existence of three perspectives: accounting, financial, and managing, and consequently, the absence of a social perspective that responds to the current trends of business development, in relation to ethical and socially responsible behavior of companies to their stakeholders, society, and the environment.

It is important to stress on the fact that the definitions of labor capital have been used within each perspective, with no interrelations, which obviously hinders the clarification of the concept, and its integrality.

The current trends of business development, under the influence of SIC, and the digital era, comprise essential aspects linked to innovation, competitiveness, cooperation, human resources management, customer orientation into the search of fidelity, but having business commitment of responsibility to their employees, stakeholders, society, and the environment. Accordingly, it must be included in the definition of labor capital.

Based on the study of several definitions of labor capital, and current trends of business development, labor capital was defined in this paper as a holistic combination of four perspectives that enables visualization of the major qualities when dealt with by different economic sciences, and considering the context in which the company operates. Accordingly, the authors of this paper suggest the need to recognize corporate social responsibility, and its role in effective administration, intellectual capital knowledge of a company, expertise, and innovation.

Further research is necessary, which introduce the social perspective to the administration of labor capital.

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### **Conflicts of interest and conflict of ethics statement**

The authors of research article entitled *A Definition of Labor Capital from a Social Perspective*, declare that this manuscript is original, and has not been submitted to another journal for publication, though previous related research has been published using a different approach, and cited in this paper. The authors are responsible for the contents of this article, adding that it contains no plagiarism, conflicts of interest or conflicts of ethics. The authors whose contributions are important for the article are cited in the content.

### **Author contribution statement**

Luis Carlos Gámez Adame. Theoretical background, analysis of results, conclusions, redaction of the manuscript's contents.

María Luz Ortiz Paniagua. Design of the manuscript, redaction of the abstract, analysis of results, content review.

Roberto Joya Arreola. Design of the manuscript, design of the methodology, review of the content.

Ana Fernandez Andrés. Design of the manuscript, data curation and redaction support.

Héctor Rodríguez Pérez. Design of the manuscript, data curation and redaction support, editing, and issuing the manuscript.

### **NOTES**

<sup>1</sup>Business social responsibility (BSR) and corporate social responsibility (CSR) are used alternatively.