

Human Capital Management: Concepts and Consequences of Human Capital Management in Organizations

Kanika Sharma ¹

¹ Assistant Professor, Baddi University of Engineering and Emerging Technology, Solan, Baddi, Himachal Pradesh 173205, India

Measurement of Human Capital Cost Is Necessary

Abstract

In today's era of modernization and competition many managers' believes that organization's "most important asset," is human capital. Many few can confidently state that the monetary assessment of that human resource in economic terms changes in management practices, organizational culture, or workforce composition affects the value of that resource. Many research scholars of human capital and human resource management face a quite same circumstances, relying more on inferences about human capital resource value than on experimental measures of it. In an effort to elucidate the different problems connected with fiscal valuation so that many research scholars can start to move towards various human capital and can provide a multidisciplinary review of presented work that has been concerned with the evaluation, revelation, and management of the financial value associated with an organization's human capital resources. The objective of this paper is to provide the details of the Human capital management and its concepts, its importance involved in organizations on the basis of available literature on HCM.

Keywords: *Employees are the lifeline of an organization*

1. Introduction

Human Capital management refers to management of an organization's employees to contribute significantly in the overall productivity of organization. In a layman's language managing cost and value of all

employees of an organization refers to human capital management. Human Capital Management is defined as the process of recruiting, training, managing, retaining employees to contribute effectively and efficiently in the processes of the organization.



In simple and easy words, advancement in the existing skills of an employee and selecting the best out of him refers to human capital management. Top management must ensure timely growth and development of every individual concerned for him/her to contribute efficiently when required. The key objective of every organization should be to train its employees so that they become efficient resources later on. In human capital management, organizations treat their employees as important resources that play an instrumental role in productivity of the organization. The development and management of individuals in line with their key responsibility areas not only make them an indispensable resource in the future but also ensure their hundred percent contribution towards the organization.

2. Human Capital Management

2.1 History of Human Capital Management

Although the modern theory of human capital has been developed over the past half century, the concept of human capital has been traced at least as far back as the 17th century. Around 1691, Sir William Petty placed a value on laborers, estimated the value of human capital to demonstrate the power of England and estimated the cost of life lost in war and other deaths.

In 1853, William Farr proposed that the present value of a person's net future earnings, which he defined as earnings less living expenses, represented wealth in the same way as did physical property and should be similarly taxed. Theodore Wittstein, in 1867, proposed that Farr's present value of net future earnings should be used to determine compensation for claims involving loss of life.

Louis Dublin and Alfred Lotka were in the life insurance business. In 1930, they were interested in the approach used by Wittstein for determining the amount of life insurance someone should purchase. Their work extended Wittstein's present value of net future earnings to consider mortality statistics. (Interestingly, the approaches most often used by so-called "forensic economists" are essentially based on the formula used by Wittstein in 1867 and by Dublin and Lotka in 1930.)

Many others were early contributors to the literature on human capital economics by suggesting in various ways that human beings are an investment which generates a return. Among them were Adam Smith (1776), Jean Baptiste Say (1821), John Stuart Mill (1909), William Roscher (1878) and Henry Sedgwick (1901). Human beings were included in Irving Fisher's definition of capital in 1897. Many other early researchers recognized the concept but refused to consider people in the same way as physical commodities due to what has been termed "sentimentalism."

Alfred de Foville attempted to estimate the value of the capital stock in France around 1900. He applied Petty's method (from the 17th century) and subtracted consumption. Another Frenchman, an actuary by the name of A. Barriol, sought to determine the "social value of a man in France." He used Farr's present value of earnings approach, but did not deduct for consumption. He did his calculations by different age groups.

Solomon Huebner, the founder of the American College of Life Insurance at the University of Pennsylvania, stated in 1914 that human life value should be afforded the same scientific treatment as is applied to conventional capital. To this day, the certificate of the Certified Life Underwriter (CLU) states that the recipient is an expert in insuring human life value.

Through the centuries, the application of what today would be called human capital theory has been applied to address many issues of public policy. Most of these issues remain the subject of that theory today. These include the power of nations, the effects of migration, investments in and regulation of safety, investments in health, economic development and education policy and investment.

As with any science, human capital economics is not stationary; it continues to evolve. At any point in time, it is the result of what has come before. Some of the more recent contributors to modern human capital theory can be found on this web site. A small sample of their contributors to the literature is also provided.

2.2 Importance of Human Capital Management

Human Capital management have a vital and important role in the recruitment process. It ensures that human resource managers hire individuals who have come from various backgrounds and who really deserve to be in the organization. Recruiting the right talent is of almost have its importance. An individual who is not fit for a particular role will not be able to contribute much in the long run.

Talent acquisition is one of the most crucial responsibilities of human resource professionals, often neglected in most organizations. Try to find out why someone really wants to join your organization? Remember money should not be the only criterion why someone wants to change and join a new organization. An individual who has been assigned the role of acquiring new talents should not forget to check an applicant's past experience, interests, professional qualification and reasons for changing previous job. If you really like someone, try to do some reference check as well. Do discuss with the applicant before calling up his previous organization or boss, else it might land him/her in trouble.

Human Capital management plays an important role in introducing a new employee to the system. Boring and meaningless orientation programs lead to confusions and an employee eventually loses interest in the organization. Do not load someone with unnecessary information, the very first day he steps

into the organization. Believe me, he will run away. Make him feel comfortable. Ask him/her not to bring lunch from home. Order lunch from outside and ask all his team members to have lunch together. Such small initiatives go a long way in breaking ice among team members.

It is essential for employees to upgrade their knowledge with time to come up with the changing situations. Human Capital Management helps in training the employees and making them indispensable resource for the organization. Motivate employees to take up special courses or online programs which would help them in their job. Employees who do not brush up on their skills from time to time find it difficult to survive in the long run. Inculcate the habit of reading. Internet is also one of the good options to keep oneself abreast with the latest developments.

Human Capital management plays an important role in increasing the efficiency of employees. Individuals are in a position to contribute more towards the system, eventually increasing the overall productivity of the organization.

To conclude, human capital management is important for:

- Hiring the right talent
- Orienting him/her to the organization
- Making a new employee feel comfortable
- Training employees in order to constantly upgrade their skills
- Retaining employees
- Making employees self sufficient and prepare them for adverse conditions

Human Capital management helps in developing skills of employees which help them stand apart from the rest.

2.3 Benefits of Human capital Management

Human capital management helps in recruiting and selecting the best out of employees. It also plays an instrumental, vital and supportive role in increasing the efficiency of employees, making them an indispensable resource for the organization. Human Capital Management supports the human resource managers to hire the right candidates for the right role. Talent Acquisition is one of the most crucial functions of an individual representing human resource vertical.

Remember one wrong employee can lead to problems, confusions within the system. Superiors and management do not have to spend much of their time and energy in training someone who already is aware of his roles and responsibilities. Human Capital

Management is beneficial in recruiting the right talent for the organization. Hire employees who really deserve to be in the system. The process of Human Capital management involves hiring the right candidate; orienting him to the system and making him comfortable for him to deliver his/her level best. It is generally observed that boring induction programs are a mere waste of time and energy. Human resource professionals should not design induction programs just because protocol demands the same. Induction programs should be interactive sessions where the trainer should acquaint the new employee with the policies of the organization. Human resource professionals should act as a bridge between senior management and employees.

Human Capital management is that management that supports free flow of information between superiors and subordinates. Employees have an easy access to the senior management and hence there is no room for confusion or misunderstandings. Half of the problems evaporate when colleagues discuss matters amongst themselves.

Trainings and skill development activities are essential for upgrading the existing knowledge of employees. Training program increases the efficiency of employees and eventually increases the overall productivity of organization. It is essential for every employee to keep himself/herself abreast with the latest developments in his/her field. Human Capital management makes an employee self sufficient. It enables employees to adapt to changing situations easily. A well trained employee can bring better productivity than someone who is not trained.

The performances of employees must be evaluated from time to time. Superiors ought to keep a track on subordinate's work. Proper feedback is essential. Human Capital management helps in monitoring employee's performance. Special online reporting systems help senior management to have a direct access on the work of their juniors. Employees are aware as to what is expected out of them.

Human Capital Management highlights the importance of soft skills and personality development for employees. An employee who can speak well is always considered as a trouble shooter by his fellow workers. Do not hire someone who has poor communication skills. Someone with average communication skills can still be considered. Human Capital management helps the employees to improve in areas where they feel they are lacking. It not only benefits the employees but also the entire organization.

3. Human Capital Management Drivers

- Human Capital Management (HCM) Driver 1 - Leadership Practices

HCM Practices

Communication: Employees must be treated well for them to develop a feeling of attachment and loyalty towards the organization. Managers must understand that their role is not just to sit in closed cabins and impose ideas on others. They ought to communicate well with their subordinates. Employees must have an easy access to the senior management. Communication from management to employees also known as Top down communication is essential for the employees to be aware of their goals and objectives and for them to know what is expected out of them.

Inclusiveness: Management ought to sit with employees on a common platform to invite suggestions and feedbacks from them.

Supervision: Senior executives and management must reduce the various levels of hierarchy between them and employees'. Management must interact and motivate the employees from time to time for them to give their level best.

Leadership: Senior executives should support, lead and influence the workforce so that they contribute effectively towards the organization.

- HCM Driver 2 - Employee Engagement HCM Practice

Key Responsibility Areas: Key responsibility areas of an individual should be designed in line with his education, skills, expertise, experience and also area of interest. This way, work never becomes a burden for him.

Commitment: Outstanding efforts of employees must be acknowledged for them to feel motivated and work harder even next time. Employees performing well ought to be suitably rewarded and appreciated in front of others.

Time: Time management ensures that no employee is overburdened. Responsibilities must be equally shared among employees.

Evaluation: Employee engagement must be evaluated from time to time by the top management.

- HCM Driver 3 - Knowledge Accessibility HCM Practice

Information Availability: Employees must have an easy access to all relevant information required to perform their duties. Organizations must organize various training programs (In house Trainings or Out sourced trainings) to constantly upgrade the existing

skills of employees and acquaint them with new learnings.

Team Work: Employees must be motivated to work in teams rather than working alone.

Information Sharing: Encourage employees to share information with each other.

- Human Capital Management (HCM) Driver 4 - Workforce Optimization

Human Capital Management (HCM) Practice

Work processes: Senior management must define work processes of employees well for maximum productivity.

Working Conditions: An organization needs to provide excellent working conditions to the employees to expect the best out of them.

Accountability: Individuals must be held accountable for their work. Get a commitment from employees and nothing like it, if everything is in writing.

Hiring: Individuals responsible for talent acquisition must ensure that they hire the right candidate for the right role. Design a strong induction program for all the newly joined employees.

Performance Management: Employee's performance needs to be strongly monitored and managed.

- Human Capital Management (HCM) driver 5 - Learning Capacity

HCM Practice

Innovation: New ideas should be welcome. Employees must be encouraged to come out with new and innovative ideas which might benefit the organization.

Training: Trainings must be practical/relevant and designed to sharpen the skills of employees. Do not design training programs just for the sake of it. They must benefit the employees.

Career Development: Employees must be aware of their growth plan in the organization.

Learning's: New learning's should be valued by all in the organization.

4. Ways For Organizations to Increase Human Capital

Constant Trainings

It is rightly said that the success and failure of any organization depends on its employees. Every employee in his/her own way contributes to the development of organization. One of the major

responsibilities of a human resource professional is to source the right talent for the organization. Recruit the right person for the right role. Job mismatch leads to confusions and eventually decreases overall productivity and output. Orienting new employees to their jobs must not be neglected. Mere piles of documents and employee handbooks are not sufficient to welcome a new employee. Boring and unrealistic employee induction programs often leave employees in a state of dilemma. Design a suitable induction program which not only acquaints a new individual with the systems, policies of the organization but also makes him feel comfortable within the system.

It is essential for every organization to upgrade the skills of its employees for them to cope well with the changing times. Employees must be trained from time to time for them to utilize their knowledge to the fullest when required and become indispensable resource for their organization. Human resource professionals or training managers must not design training programs just for the sake of it. Understand how your training program would benefit the employees? Management can also sponsor the education of their employees for them to sharpen their skills and increase human capital. Realistic training programs increase efficiency of an employee, who further increases the productivity of organization.

Monitoring Performance

Monitoring performance of employees also increases human capital. Understand what your employees are upto? Managers must take regular feedbacks from their subordinates. Introduce the concept of online weekly report system, where each employee would have his/her own login ID and password. At the end of every week, employees should be directed to fill the online weekly report which would automatically go to their reporting bosses for them to evaluate their performances and write comments and feedbacks. This way superiors can also keep a track on their employees' progress.

Direct Communication

Subordinates must be able to walk up to their manager's cabin in case of queries. The "Hitler Approach" does not work now a days. Problems must be discussed on an open forum for everyone to give their suggestions, feedbacks and ideas. Do not ignore even the minutest problem. Any problem left unattended may lead to a serious situation later on.

Each employee should have a say in major decisions of the company. This way employees feel attached towards the management as well as organization. You never know when someone might come up with a brilliant idea.

Defined Job Responsibilities

Job responsibilities of employees must be clearly defined to expect the best out of them. Key responsibility areas must be designed in line with an individual's past work experience, educational qualification and area of interest. KRAs ought to reflect essential functions of one's job.

Motivation

Employees must be motivated from time to time for them to work harder even next time and for others to draw inspiration from them. The talents of good employees must be recognized either by offering them lucrative incentives or giving them a decent salary hike.

5. Human Capital and Organizational Learning Capability

Human capital is a valuable and intelligible resource of an organization through which the organizational long-term survival can be foreseen and achieved. Prudent management of human resource in an effective manner shall enable the organization not only to sustain its long-term survival but also will increase its alert responsiveness to work in the dynamic environment (Barney & Wright, 1998).

Organizational learning capability makes the employees unparalleled and inimitable resource that obviously makes the task difficult for the competitors to emulate in creating the identical resource. Human capital; nevertheless, is directly coupled with organizational learning capability since it facilitates to explore the specific ways of doing the tasks and also enables these to be recorded, documented in the organizational data bases; therefore, it connotes to become the ruling criteria / bench mark to perform the job. It per se helps the organization to develop a learning culture within the organization. This learning culture furthers the employees to acquire the dynamic expertise (Collins & Smith, 2006). Organizational learning capability; among others, have aspects of tangible bearing (Jerez-Gomez et al, 2005) as below: Managerial commitment. System perspective.

Openness and experimentation. Knowledge transfer and integration.

Organizational learning capability is further divided into two aspects: 1. Absorptive Capability and 2. Transformative Capability. "Absorptive Capability" is exploration ability, which includes the organizational competence in developing the relations outside the organization and discovers the information that is appropriate to the organizational culture (Cohen & Levinthal, 1990).

Additionally it also uncovers the ways for further advancements whereas the "Transformative capability" is related to the implementation of the acquired knowledge. It is the organizational ability to prioritize their task and plan which information is to be used as first preference. The organization must implement ramifications of its knowledge to the particular jobs to gain the competitive advantage. This capability in particular results in augmenting the organizational responsiveness to work in the impelling environment. (Kought & Zander, 1992).

Intellectual Capital: Intellectual capital is an organizational competence, which is implemented to achieve the competitive edge and comprises the human capital, the structural capital and the relation capital. The human capital by and large is related to the competencies and experience, the structural capital on the other hand is associated with the procedural knowledge and the data banks of an organization and the last one i.e. relational capital; however, contains the organizational social linkages both inside and outside the organization (Youndt et al, 2004).

There are two elements of structural capital viz. Objectified knowledge Collective knowledge. Objectified refers to the information communicated in-house within the organization. It can be in the form of copyrights; information stored in the different soft wares, conveyed information from the top management and shared among the employees. The collective knowledge on the other hand is related with the information acquired from the organizational social networks and this knowledge is imbued in the organization culture and procedures (Longo et al, 2009).

Two of the most significant human resource functions having a positive impact on intellectual capital are: Communication. Employee perception of

the company's vision and strategic intent. Communication includes both upward and downward flow of communication. The purpose of the communication by its implication is that the top management of the organization if intends to know about the employee's individual and career related anticipations gets into a position where the same can implement the required practices in order to cater for its personnel's needs (Longo & Mura, 2010). The second function of human resource is the employee's perception of the company vision means that the organizations advancement is communicated to the employees from time to time. It is obligatory for the workforce of the organization to have of the requisite knowledge of organizational current status.

It is very important because this will help the employee to strive in line with achievement of the organizational objective. Affording the employees with the appropriate training sessions will lead to achieve its objective more effectively and efficiently. When the information is communicated and is shared across the whole organization it will lead the firm towards the organizational learning. However, where the employees have the leverage to undertake their work, they vicariously are thus encouraged to commit the mistakes because the top management thinks that personnel's will learn more by doing mistakes.

Organizational learning will also benefit the organization in generating the human capital within the organization (Schliemann, 2006). International Journal of Learning & Development ISSN 2164-4063 2012, Vol. 2, No. 1 361 www.macrothink.org/ijld Transformational leadership: In today's dynamic and intensely competitive environment it is pivotal for the organization to be unique from the competitors in order to survive and sustain its lively entity. Obviously there are certain requirements for achieving the competitive edge.

These elements are the organization's norms and values, its human capital, governance and its information technology. The organization must have these factors in a unique manner in order to make its organization different from its competitors (Barney, 1986; Powell & Dent-Micallef, 1997; Wright et al, 1994; Hitt et al., 1998). These elements will also generate the intellectual capital, which includes both the human capital and the structural capital. Basically it is the human resource of an organization, which leads towards the competitive advantage because the human resource is intangible resource of an organization and

also it is difficult for its competitors to generate the kind of employees at par in competence in their organizations (Prahalad & Hamel 1990; Barnet 1991).

Transformational leadership is defined by Koehler and Pankowski (1997) as it is a series of actions that motivate the employees to work in a dynamic environment, to enhance their productivity and also make their process better to achieve the competitive advantage. Transformational leader makes the employees empowered and autonomous in order to have more creative and innovative ideas. Transformational leaders also act as a coach and mentors of their employees, this makes employees zealously motivated and they devote their energies to the capacity in order to complete their requisite tasks (Yukl, 2006).

The aim of this interim leadership is to gain the competitive edge through its employees. Here the employees will not actively participate in the long term decision of an organization. This will benefit the employees in their professional lives besides making the organization unique (Goler, 2003).

6. Conclusion

Many efforts have been made to highlight the values, importance and role of human capital management to various organizations and how this human capital management affects the cost and value of an employee to organization. Human capital management takes into account the training and development cost, retention cost, recruiting cost, selecting cost, performance appraisal cost and the worthy value of an employee to that organization. This study provides all important concepts related to human capital management and how this human capital management affects the job performance and organizational effectiveness. Proper evaluation of cost and value of an employee will always make effective decisions and high profits to an organization.

References

[1] Armstrong, M. Armstrong's Essential Human Resource Management Practice. India: Kogan Page limited, (2010).
 [2] Abeysekera, I., & Guthrie, J. (2004). Human capital reporting in a developing nation. The British Accounting Review 36 (2004), 251-268

[3] Axelrod, B., Hadfield-Jones., and Michaels, E. A new game plan for C players. Harvard Business Review 80(1), 80-88, (2002).
 [4] Baron, A., & Armstrong, M. Human Capital Management: Achieving added value through people. London: Kogan page, (2007).
 [5] Barney, J. B., and Wright, P. M. On becoming a strategic player: the role of human resources in gaining competitive advantage. Human Resource Management 37 (1), 31-46, (1998).
 [6] Bontis, N., Dragonetti, N. C., Jacobsen, K., and Roos, G. The knowledge toolbox: a review of the tool available to measure and manage intangible resources. European Management Journal 17(4), 391-402, (1999).
 [7] Bontis, N. World Congress of Intellectual Capital Readings, Butterworth-Heinemann KMCL Press, Boston.MA, (2002).
 [8] Bontis, N., Keow, W.C.C. and Richardson, S. Intellectual Capital and Business performance in Malaysian Industries. Journal of Intellectual capital 1(1), 85-100, (2000).
 [9] Burke, R. J. Reinventing Human Resource Management: Challenges and New Directions. London: Rout ledge, (2005).
 [10] Collins, C., and Smith, K. Knowledge exchange and combination: the role of human resource practices in the performance of high-technology firms. Academy of Management Journal 49(3), 544-60, (2006).
 [11] Cohen, W. M., and Levinthal, D.A. Absorptive capacity: a new perspective on learning and innovation. Adm. Sci 35(1), 128-152, (1990).
 [12] Choo, C.W. and Bontis, N. The Strategic Management of Intellectual Capital and Organizational Knowledge. New York: Oxford University, (2002).
 [13] Hen, M. C., Cheng, S.J. and Hwang, Y. An empirical investigation of the relationship between intellectual capital and firms' market value and financial performance. Journal of Intellectual Capital 6(2), 159-76, (2005).
 [14] Jackson, P. Knowledge Asset Management: A system approach for human capital management. The journal of information and knowledge management systems 37 (4), 399-403, (2007).
 [15] Jerez-Gomez, P., Cespedes-Lorente, J., and Valle-Cabrera, R. Organizational learning capability: a proposal of measurement. Journal of Business Research 58 (6), 715-25, (2005a).

- [16]Hsu, C. I. Knowledge sharing practices as a facilitating factor for improving organizational performance through human capital: A preliminary test. *Expert System with Application* 35 (2008), 1316-1326, (2007).