

HUMAN CAPITAL MANAGEMENT [HCM]: A NEW MODEL FOR ASSESSMENT AND IMPROVEMENT OF ORGANIZATIONAL PERFORMANCE

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ABSTRACT

In today's highly competitive world, it is the 'human capital', or the people working for an organization, who make all the difference. This notion has gradually given rise to the strategic concept - Human Capital Management (HCM). HCM is all about acquiring, managing and developing the human capital. Organizations today are increasingly becoming aware of the fact that their human capital is the only differentiating factor in a globally competitive market. People in an organization constitute an important and essential asset which tremendously contributes to development and growth of that company by the help of their collective attitudes, skills and abilities.

This is why the human capital (HC) can be considered the most important sub-dimension of the intellectual capital. Since you cannot manage what you cannot control, and you cannot control what you do not measure, the measurement of HC is a very important issue. HCM is often used interchangeably to refer to human capital management or human capital measurement. HC management is about what we're doing to grow and productively use these capabilities to deliver business performance and long-term strategic goals. HC measurement, on the other hand, focuses on the analytical tools we use to measure and report on how we're doing managing our human capital.

This paper is an attempt to tell about Introduction, Significance and Scope of HCM, Process of HCM, Strategies of HCM, Benefits of HCM, Trends in HCM, Challenges of HCM, HCM-Economic Growth and Sustainability, Conclusion, References.

Keywords: Human Capital, Organizational Sustainability, HCM Model, Talent Management

I. INTRODUCTION

One of the most important assets of today's corporations is their human capital. The development and effective utilization of human capital serves as an increasingly vital source of value and competitive advantage for individual firms as well as for the economies in which they operate. Human capital, along with the knowledge and intellectual property create one of the most important intangible assets of corporations. The success of any company will depend on its ability to understand how human capital links to its performance and its wealth. The

most competitive companies will have the best strategies and methods for attracting, hiring, managing, developing and retaining top performing talent. Managers need training on how to apply human capital management (HCM) principles and methods to business strategy and performance. Human capital is the sum of a company's employees including their skills, competencies, talents, creativity and know-how

II. SIGNIFICANCE OF HCM

The concept of Human capital has relatively more importance in labour-surplus countries. The surplus labour in these countries is the human resource available in more abundance than the tangible capital resource. This human resource can be transformed into Human capital with effective inputs of education, health and moral values. The transformation of raw human resource into highly productive human resource with these inputs is the process of human capital formation. Corporations are recognizing the importance of investing in their employees. Companies are beginning to understand that to stay on top in the global economy; they need to place more and more emphasis on developing and retaining their people. Organizations that appreciate the financial impact of their employees often refer to them as human capital. Human capital is a valuable concept because it recognizes that people should be treated as assets, rather than as an expense. The most successful companies and the most successful countries will be those that manage human capital in the most effective and efficient manner.

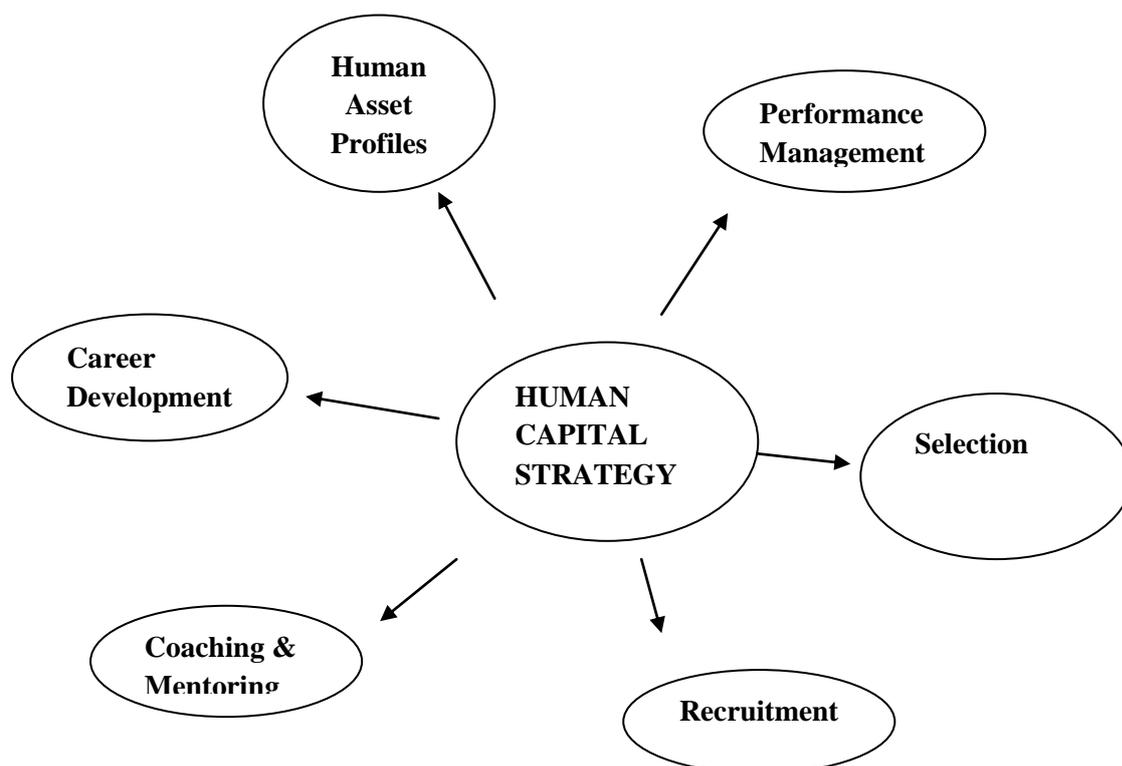
III. PRINCIPALS OF HUMAN CAPITAL MANAGEMENT:

- Building a powerful human capital strategy requires solid facts, measures, and processes for discerning where the firm will get the most leverage from its people.
- Recent technological advances have been the catalysts for the emergence of new approaches to human capital management.
- Business models and human capital strategies must match.
- Taking advantage of the observations and records of actual events maintained in your company's HR information systems helps you discern how your business model and human capital strategies have been working for or against each other.
- Find the key points of leverage for increased profits.
- View your human capital as a value-producing asset instead of a cost to be minimized, reduced, or reined in.
- New management tools now exist to help you analyze how key outcomes such as productivity are affected over time by human capital attributes and practices. These tools help you predict the return on your human capital investments.
- Identifying and focusing on what's important will drive value.

IV. HUMAN CAPITAL STRATEGY

Effective strategic human capital management approaches serve as the cornerstone of any serious change management initiative. Successful human capital approaches enable an agency to become LESS hierarchical, process-oriented and inwardly focused; and more flat, results-oriented, integrated, and externally focused. It requires a long-term commitment to valuing human capital as a strategic asset. The effective Strategic Human Capital Management enhances leadership continuity and succession planning and it helps in strategic planning and organizational alignment, acquiring and developing staff deployment and creating results-oriented organizational cultures. Figure 1 signifies the various strategies of human capital for improving organizational sustainability.

Fig-1

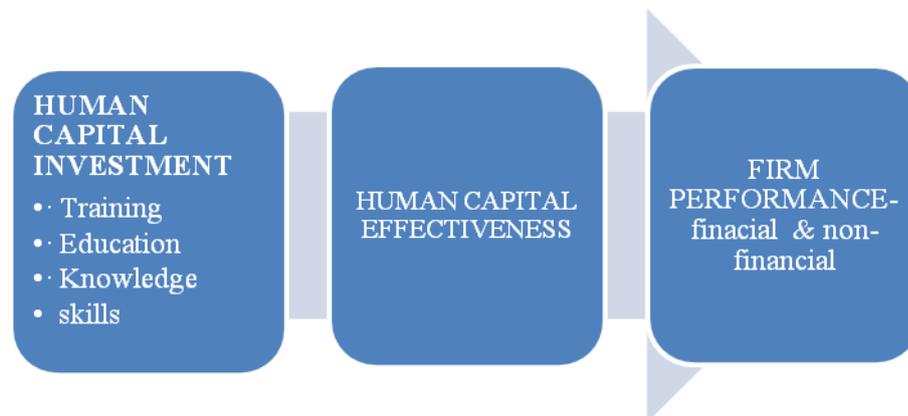


V. HCM MODEL

A HCM model of leadership and cultural transformation defines critical success factors for strategically managing Human Capital. It assesses the extent to which human capital should be strategically managed. It determines the extent to which human capital considerations are integrated into strategic planning and decision making. It highlights the importance of a sustained commitment and raises the bar for human capital executives

and their teams. Figure 2 describes the process-oriented stages of human capital management(HCM) that are to be considered in isolation from one another.

Fig-2



VI. HUMAN CAPITAL MANAGEMENT COMPONENTS

- **Talent Management:**Talent management is a complex collection of connected HR processes that delivers a simple fundamental benefit for any organization. It requires strong executive support, along with systems and processes all directed towards having the right talent doing the right work at the right time.
- **Human Resource:**Human Resources refer to a function within an organization charged with the overall responsibility for implementing strategies and policies relating to the management of individuals.
- **Management Training:**it is a planned activity for developing management skills. Management training includes public or in-company training and on-the-job training designed to improve managerial competencies.
- **On boarding:** On boarding, also known as organizational socialization, refers to the mechanism through which new employees acquire the necessary knowledge, skills, and behaviors to become effective organizational members and insiders
- **Recruitment & Retention:**Recruitment is the process of searching the candidates for employment and stimulating them to apply for jobs in the organisation".Employee retention refers to the various policies and practices which let the employees stick to an organization for a longer period of time
- **Compensation & Benefits:**Compensation is a systematic approach to providing monetary value to employees in exchange for work performed to achieve several purposes assisting in recruitment, job performance, and job satisfaction.

- **Change Management:** Change management is a systematic approach to deal with change from organization perspective and on the individual level including adapting to change, controlling change, and effecting change
- **Knowledge Management:** it comprises a range of strategies and practices used in an organization to identify, create, represent, distribute, and enable adoption of insights and experiences which comprise knowledge.

VII. HUMAN RESOURCES AND HCM

Developed societies also face major demographic changes stakes, with ageing workforces requiring that HR directors revise their employability and mobility policies. As people are the main asset of many businesses, HR directors need to consider how to:

- Transform the HR function from an administrative support service to a strategic business partner
- Attract the best talent, develop and retain key individuals by helping them to align their career path with the requirements of the business and their personal lives
- Optimize their HR department in the most efficient way (shared services centers, outsourcing/in-sourcing), leading to better services to employees and cost reductions
- Integrate diversity best practice with HR policies (careers, training, recruitment, talent pools, etc.)
- Implement HR solutions (HR ERP like SAP, etc. or best-of-breeds for specific needs such as Talent management, or force.com based solution, etc.) and align them with HR needs to support HR processes.

VIII. HCM GOALS

- Align human capital planning and management
- Ensure operating and staff divisions are structured to provide efficient, cost-effective service in order to respond quickly to changing business needs.
- Ensure the workforce is highly competent, well prepared, and committed to achieving the organization's increasingly complex mission.
- Develop outstanding leaders prepared to lead in a dynamic environment by ensuring continuity of leadership and a learning environment (i.e., sharing critical knowledge across the organization).
- Create and administer a comprehensive performance management system that aligns the Department's mission, goals and objectives with the day-to-day work of employees, and motivates employees to achieve their best.

IX. HUMAN CAPITAL TRENDS

- Conducting and updating a comprehensive human capital plan
- Acquiring skilled employees
- Retaining a competent workforce

- Developing that workforce
- Managing workforce performance programs effectively

X. ANALYZING HUMAN CAPITAL NEEDS

- A current workforce profile (supply analysis)
- An examination of future staffing needs(demand analysis)
- A description of where supply and demand differ (gap analysis)
- A discussion of external factors (such as the availability of needed skills in the labor market)
- Strategies to meet the future needs of the workforce, including action steps, necessary resources and measures by which the plan's effectiveness can be evaluated

XI. BENEFITS OF HCM

Human Capital Management provides the following business benefits:

- **Consistently achieve corporate objectives**
 - Align your workforce with organizational objectives.
 - Find the best people and leverage their talent in the right job at the right time.
 - Ensure that every employee understands and acts upon appropriate business objectives and can monitor their progress toward corporate goals.
- **Retain your talent**
 - Provide your employees clearly defined career and development plans and personalized learning opportunities.
 - Link employee performance to compensation programs, such as variable pay plans and long-term incentives.
- **Proactively identify and fill talent gaps**
 - Identify, develop, and track high-potential employees.
 - Ensure that future leaders can be effectively promoted from within – and that successors are identified for key positions.
- **Lower costs of compliance and employee administration**
 - Reduce the cost and effort of complying with local regulations through unrivaled features and functions, support structures, and expertise.
 - Reduce HR costs by automating operational employee-related processes.
- **Improve decision making and manage human capital more effectively**
 - Give your executives, HR professionals, and line managers reporting and analysis options that provide real-time insight into your workforce.

- Identify trends at an early stage and make well-informed decisions, so you can manage your human capital more effectively, predict human-capital investment demands, and track workforce costs and the return on investment for HR projects.
- **Reduce risk**
 - Adapt your processes quickly to changing business needs with a flexible, scalable solution.
 - Leverage local help centers as well as the customer community of several organizations
- **Implement value-added activities**
 - Streamline all HCM processes.
 - Free employees to concentrate on value-generating activities, rather than on routine tasks.
- **Turn HR into a strategic business advisor**
 - Align HR activities with organizational objectives
 - Focus on leadership succession, workforce planning, and organizational change
 - Make HR services transparent
 - Lower HR costs and deliver better HR services – anywhere and anytime

XII. HUMAN CAPITAL MANAGEMENT FOR ACHIEVING ORGANISATIONAL SUSTAINABILITY

Since labor usually represents more than half of a company's expenses, the correlation between Workforce performance and the performance of the business as a whole is obvious. Yet for many Companies, numerous internal and external challenges prevent them from fully leveraging their Human capital. Finding and retaining employees with the skills to execute Business strategy may be the major challenge.

And for many companies, getting employees aligned with business strategy is complicated by the fact that consolidation, globalization, and off shoring have yielded a workforce that speaks multiple languages and has multiple cultural norms.

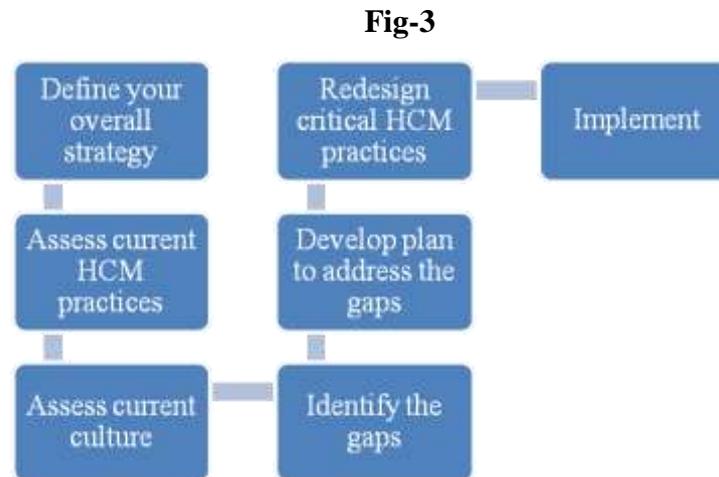
Forward-thinking companies make the connection between their business performance and the effectiveness of their human capital management (HCM). They adopt a strategic approach to HCM which drives efficiency in day-to-day operations resources to support the Overall business.

XIII. LINKING HCM MODEL TO BUSINESS STRATEGY

This include firstly, communicating the strategic objectives which drive organization performance then secondly, evaluating current HCM practices in terms of their impact and support on strategy and finally, Asses the culture in the following aspects:

- Does your leadership team *believe* HCM is a differentiator?
- Does your culture support your brand and strategy?

XIV. HCM IMPLEMENTATION MODEL



XV. HUMAN CAPITAL AND SUSTAINABILITY: A LITERATURE REVIEW

There is large and growing evidence that demonstrates a positive linkage between the development of human capital and organisational performance. The emphasis on human capital in organisations reflects the view that market value depends less on tangible resources, but rather on intangible ones, particularly human resources. The organisation also has to leverage the skills and capabilities of its employees by encouraging individual and organisational learning and creating a supportive environment where knowledge can be created, shared and applied. The link between human capital and performance is based on two theoretical strands. The first is the resource-based view of the firm. The second is the expectancy theory of motivation which is composed of three elements: the valence or value attached to rewards, the instrumentality, or the belief that the employee will receive the reward upon reaching a certain level of performance, and the expectancy, the belief that the employee can actually achieve the performance level required. HRM practices that encourage high skills and abilities - e.g. careful selection and high investment in training - can be specified to make the link between human capital management and performance.

XVI. HUMAN CAPITAL MANAGEMENT @ CHALLENGES AHEAD

Every organisation requires proactive strategies and careful execution to face up's and recent downturns in markets. Implementation of talent strategies to ensure commercial plans is achieved via strategic and practical human capital process.

The key to business is to have a vision which needs to be supported by execution of practical actions to enable that vision to become a reality.

The following key statistics focus the recent period of instability:

- 45% of organisations were impacted by downsizing;
- 39% of organisations reduced their spending on training;

- 38% of organisations introduced pay freezes or reduced pay, either directly or by reducing working hours; and
- 59% of organisations either froze recruitment or reduced recruitment levels.

Apart from the loss of staff caused by downsizing, organisations and remaining staff have suffered in other ways. Some of these impacts have the potential to cause far reaching damage to employers, perhaps even more costly. The following are six major challenges faced by organisations in implementation of HCM:

- The employment brand
- Staff turnover
- Skills shortages
- Reduced productivity
- Leadership effectiveness

Employment brand

During the last decade leading employers became increasingly interested in their employment brand. Early research revealed that very costly damage was being done to employment brands as employers forgot the hard learned principles of good people management in their rush to slash employment costs. Acc to a survey 41% of employees said that their respect for their employer declined after downsizing had taken place and 46% of employees said that in future they would be less likely to recommend their employer to an acquaintance seeking a job. Management tends to overestimate the level of employee support for their organisations.

Staff turnover

Voluntary staff turnover typically reduces significantly during a recession. However, reduced employee engagement and constraints on salary reviews are combining to drive up the level of staff turnover. Many organisations recognise the risk of staff turnover, particularly as they may have already lost critical skills by downsizing. With warnings of a renewed skills shortage, staff turnover is likely to drive up wage costs and also slow down productivity just as employers want to gear up for growth.

Staff retention

The highest ranking people management strategy for employers currently is to improve retention of skilled employees in organisations. Although staff knows what a fair salary is, and will not remain long in an organisation that pays too low, other factors are also important such as Friendly work colleagues and social networks are strong motivators for employees, but these factors are less within the control of the employer. According to a research the following factors are rated as very important in influencing an employee to stay:

- More challenging and satisfying work – 79.5 %
- Better work life balance – 74.9 %
- Improved leadership and management – 74.5 %

- Increased career development opportunity – 72.8 %
- Increased learning and development opportunity – 70.5 %
- Increased salary – 56.4 %

The quality of management and leadership is critical with half of all employees revealing their decision to leave was related to what management issues.

Skills shortages

The issue of skills shortages was seen as one of the most serious constraints on organisational growth. Research from 2009 showed that almost half of employers struggled to fill skilled vacancies. A recent report – “Australia’s Workforce Skills Gap” – produced by the Australian Institute of Management Victoria found that 76% of organisations believe they already have a skills gap between the skills they need and the current skills of their employees. Most organisations plan to address this problem through staff development. The Australian Industry Group found that 66% of organisations consider up skilling staff as a solution and 28.5% favoured recruitment. Increasing training and development was one of the most important people management strategies identified by organisations, with 80.2% indicating it was very important.

Reduced productivity

Research undertaken in early 2009 revealed that a low 21% of employers had achieved productivity improvements. This was due to the lack of training for staff that were given new responsibilities following the downsizing and also the lack of process improvement. Process improvement was one of the key strategies identified by organisations to facilitate growth with 75% of organisations rating increasing productivity of staff through process improvement as a very important people management strategy for growth. However, the survey also revealed that 39.2% of organisations were judged as not effective at implementing process improvement.

XVII. CONCLUSION

This paper explored the literature on human capital and its impact on firm performance. The conceptualization of human capital is closely linked to fundamentals of firm performance. The literature reviews show that there are reasonably strong evidences to show that the infusion of ‘human capital management’ in organizations promotes innovativeness and greater firm performance. Studies also clearly substantiate the fact that financial performance is positively impacted through the consideration of human capitals.

In light of this, the understanding of firm performance in relation to human capitals should be regarded as a phenomenon that transforms the entire workforce as the most ‘valuable assets’ of the organization to pave ways for greater achievements via innovativeness and creativity. Hence, companies should therefore, come up with some effective plans especially in investing the various aspects of human capital as not only does it direct firms to attain greater performance but also it ensures firms to remain competitive for their long term survival.

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