

Human Capital Management: An Emerging Human Resource Management Practice

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Abstract

Human capital is just one of an organization's intangible assets. It is basically all of the competencies and commitment of the people within an organization i.e. their skills, experience, potential and capacity. Human capital management is a reciprocal relationship between supply and demand: employees, contractors and consultants invest their own human capital into business enterprises and the business enterprises need to manage the supplier. Any organization interested in its performance will naturally ask how well they are managing this asset to ensure maximum return on their investment. In the same way, all employees, contractors, consultants and providers of human capital want to ensure they are getting the appropriate return for their own human capital investing through salary, bonuses, benefits, and so on. The results of this study show the strategic importance of human capital and managing them in organizations. The principal purport of this study is to explore and look for variety of aspects and the significance of human capital in today's hyper-competitive environment besides delve in to details for gaining more insights regarding the subject in focus i.e. human capital. The paper is an exploratory study, which by and large relies heavily on the analysis of available literature. Organizations have been persistently adverting fair amount of emphasis on human capital by taking necessary measures to develop a culture of knowledge sharing, retain highly competent employees to generate more innovative ideas with a view to achieve the competitive advantage for having an edge over contemporary organizations. The inference is that human capital by all means is positively related to the organizational productivity since implementation of the creative ideas and innovations do improve the organizational outcomes. As a result of intellectual capital employees tend to become loyal and passionate about their work and devote their talents to the best of their potential to achieve the all-important competitive advantage. The results of this study show the strategic importance of human capital and managing them in organizations.

Keywords: Human Capital, Organizational Performance, Competent Employees, Intellectual Capital, Social Capital, Competitive Advantage.

I. INTRODUCTION

Human Capital refers to the know-how, capabilities, skills and expertise of the members of an organization (Dzinkowski, 2000). A Google search of Human Capital reveals scores of consulting companies that promise to develop measure and manage the Human Capital of their clients' organizations. It seems that Human Capital is even more relevant to members of the business community in 2004 than it was upon its initial conception over forty years ago. Becker, 1992 Nobel Prize winner for economics, pioneered the debate about Human Capital in the 1960s, concentrating on Human Capital largely in terms of investments in on-the-job training and education. Why then, are organizations showing a heightened interest in promoting and managing human capital?

Theory and research suggest that Human Capital influences organizational performance both indirectly and directly, making the topic of relevance to anyone who has a vested interest in understanding what makes a firm perform. Practices that enhance Human Capital can affect organisational performance indirectly by shaping the skills, attitudes and behaviours of employees. The collective interaction of employee skills, attitudes and behaviours determines the performance of the organisation (Ostroff& Bowen, 2000). Human Capital can also have a direct impact on organisational performance by creating structural and operational efficiencies (Ostroff& Bowen, 2000). A recent Accenture survey revealed that although business executives firmly believe that people are their most important asset, most executives are at a loss to prove that investments in people lead to improved business results. This quest for empirical evidence is complicated by the fact that Human Capital is an intangible asset that is not easily captured in financial statements but is nevertheless incorporated into market value. In 1995 IBM bought Lotus for US\$3.5 billion – 14 times its book value, signaling that marketplaces put

important value on intangible assets, such as Human Capital, when estimating the likely success of a business (Rylatt, 2003).

Right now in the hypercompetitive and dynamic condition; the associations as a rule give attractions to the learning their specialists have and pick up to remain alive and exceed expectations. Presently a-days upper hand must be picked up with the assistance of the learning their specialists have among them. Traditional methods for picking up the focused edge (natural, financial and accomplishing the economies of scale); thusly, have turned out to be out of date now (Burke, 2005). The activity requests additionally have expanded complex now-a-days all things considered representatives with adaptable and dynamic abilities just can cook for the activity necessities. There is exceptional accentuation today on abilities of representatives and associations in this way are moving towards teach associations in which the workers are engaged and are furnished with chances to create and upgrade their professions. With a specific end goal to make the workers more effective; the associations give them fitting assets and manage the cost of instructional courses. (Kazlauskait and Bučiūnien, 2008).

Specialists with their insight bring inventive and creative thoughts that thus increment worth of the association. The esteem is included the impalpable assets, for example, licenses, notoriety of an association and furthermore to the skill of workers (Sveiby, 1997). This additional esteem will build the authoritative profitability and furthermore enhance the exhibitions of representatives (Bontis et al., 2000; Chen et al., 2005; Youndt and Snell, 2004). These specialists with learning are additionally alluded to as the scholarly capital. There are the three components of scholarly capital: human capital, social capital and auxiliary capital (Bontis, 1996; Edvinsson and Malone, 1997; Marr, 2005; Roos et al., 1997; Stewart, 1997).

Hierarchical culture assumes a noteworthy part in learning hones since it is the standards and estimations of an association that modify the faculty's mentality and activity. Associations persuade their workforce to direct meetings to generate new ideas through which they can create the imaginative thoughts and propose the substitute answers for the issues. Top administration urges the workers to share their encounters and mindfulness. The learning in this way produced through aggregate shrewdness can lead towards the upper hand (Floyd and Path, 2000).

II. LITERATURE REVIEW

Edvinsson, St Onge, Armstrong and Petrash (1997, cited in Dzinkowski, 2000) discuss Human

Capital as a sub-component of intellectual capital in their 'value platform' model of intellectual capital management. The term intellectual capital is often used synonymously with intellectual property, intellectual assets and knowledge assets. Dzinkowski (2000) refers to intellectual capital as the total stock or knowledge-based equity that a company possesses. Know-how, education, vocational qualifications, work-related knowledge and competencies, entrepreneurial activity, innovativeness, proactive and reactive abilities and changeability are included within the scope of Human Capital in Edvinsson et al.'s (1997, cited in Dzinkowski, 2000) model. The model positions Human Capital as a building block for organisational (structural) capital. Human capital and organisational capital interact to generate customer capital and value is created by the interaction of the three sub-components of intellectual capital.

According to Dzinkowski (2000), the practices for managing Human Capital tend to have been drawn from the field of HRM management, indicating the conceptual similarity between Human Capital and Human Resources. Management practices include building an inventory of employee competencies, scanning the environment and determining competencies which need to be developed or acquired to meet strategic objectives, developing a system to deliver knowledge, skills or intellectual upgrade, as needed and developing evaluation and reward systems tied to the acquisition and application of competency that aligns with the organization's strategic objectives. Rylatt (2003) discusses Human Capital as a type of know-how, on par with, rather than a subcomponent of, intellectual capital as well as customer and relationship capital. Rylatt defines Human Capital as a measure of the current know-how of people under the organization's control. Indicators of Human Capital include but are not limited to: average years of service, employee satisfaction, hours and monetary investment into training employees, expert turnover, level and type of education, literacy levels, staff morale (percentage of employees which indicate concern with existing culture and climate and staff turnover), succession planning (percentage of key positions with at least one fully qualified person ready to over into a leadership position) and so on. High levels of enthusiasm and commitment in the workplace are indicative that the Human Capital is working in the favour of the organisation (Rylatt, 2003).

For Ostroff and Bowen (2000), HR practices represent investments in Human Capital. An organizations Human Resources policies and practices can increase the Human Capital by increasing the collective knowledge and skills of the organization

(Ostroff & Bowen, 2000). Human Capital can be increased through recruiting by selecting those employees who demonstrate high ability and the potential to develop their abilities further. Once employees join the organization their current levels of knowledge and skills can be enhanced through formal and informal training and development activities. Feedback on performance through formal appraisal systems enables employees and supervisors to identify areas for improvement and to set realistic, individually specific developmental goals, which facilitate further skill acquisition. Changes in work design, such as increasing an employee's responsibilities, shifting from individual to team-based work can provide an opportunity for employees to increase their technical and interpersonal knowledge and skills. Skill-based pay reinforces an employee's efforts in building their skills by providing a source of external motivation. Companies that are characterized by functional flexibility, where employees have the opportunity to be transferred to a different function, department or subsidiary, enable employees to develop in their changed work settings whilst retaining their general and company specific expertise within the organization.

The Accenture Institute for High Performance Business (Thomas, Cheese & Benton, 2003) makes a distinction between Human Capital processes and Human Capital capabilities. Human Capital processes consist of practices that lead to robust and effective human capital capabilities and include core HR processes e.g. competency management and performance appraisal as well as broader Human Capital processes such as learning and knowledge management.

Human capital represents various features and aspects of organizational employees. These features include but not restricted to their competencies, procedural knowledge and particular individual's characteristics like mental ability, zeal and enthusiasm, opinion, consistency, dedication, loyalty, innovativeness, ingenuity, ability to work in team and proficiency to attain organizational coveted objective (Fitz-enz, 2000). As defined by Baron and Armstrong (2007);

To summarize Human Capital has been conceptualized in a variety of ways in the management literature. It has been conceptualized as a sub-component of intellectual capital managed by traditional HRM practices; a type of know-how; employee knowledge and skills that are enhanced through HR practices and as a combination of core HR practices in combination with learning and knowledge management.

Human capital management is related with acquiring the information which let management know about its different policies albeit policy regarding its finance, procedures and also about how their human resource do in fact add value to the organization.

The basic feature of human capital is that how the organization treats its employees as the most valuable resource. Furthermore by utilizing the workforce efficiently the organization can attain the competitive edge. Human capital management is a link between workforce and organizational planning (Kearns, 2005). The word human capital was instigated by Schultz in 1961 but this term was explained later in 1981 as all the capabilities of an individual must be taken into consideration whether these competencies are inherent or learned. Those characteristics of a person that create or add value to the organizational operations is regarded as human capital.

III. FOLLOWING ARE SOME KEY ELEMENTS OF HUMAN CAPITAL.

A. *Intellectual Capital*

The most significant element of human capital is intellectual capital. It refers to the creative and innovative brainpower existing within the organization. The human resource is an intellectual Another comprehensive definition given by Bontis et al (1999); human capital indicate those reasons, which bring the individuals together in the organization, where they share their understandings of different aspects, experiences and awareness by which they make firm different from its competitors. For this the organization must possess such human resource that are motivated towards learning, adjust themselves in the dynamic environment, have creative and innovative ideas and with the right supervision they make organization able to compete with their benchmarks.

Capital of any organization so the organization utilizes its intangible asset and other financial or physical resource that makes the firm worthwhile (Bontis, 1998).

B. *Social Capital*

In this component knowledge is acquired from the collective wisdom. It can be from outside or within the organization. Social capital is explained as those factors that allow the people to work collectively to fulfill the mutual goals. Factors include mutual trust, values and certain standards (Putnam, 1996). However, the social capital can be created and modified according to the circumstances with the passage of time (Bontis et al, 1999).

C. Organizational Capital:

Organizational capitals include the confidential information that the organization holds it is data bank (Youndt, 2000). Organizational capital is also known as the structural capital (Edvinson & Malone, 1997).

List of Human Capital Characteristics

- Know-how
- Union activity
- Efficiency ratios
- Education
- Employee number
- Stability ratios
- Vocational qualification
- Employee thanked
- Employee involvement in community
- Employee featured
- Career development
- Executive compensation plan
- Entrepreneurial spirit
- Employee compensation plan
- Training programs
- Employee benefits
- Equity issue: race, gender and religion
- Employee share option scheme
- Equity issue: disable issues
- Employee share option scheme
- Employment safety
- Growth/renewal ratios:

IV. HUMAN RESOURCE MANAGEMENT (HRM) AND HUMAN CAPITAL MANAGEMENT (HCM)

Human capital management requires capable employees whose competence is above board and are highly proficient in performance of their work. These people introduce creative, innovative ideas and make the organization different from its competitors. Human capital management is related to employee's commitment, retention, talent management, learning and development of personnel. To manage highly competent employees has become very important in order to survive in today's dynamic and extraordinary competitive environment (Huselid, 1995 and Youndt et al., 1996). There are three elements of human capital management that boost-up the effect of human resource management:

- Employee dedication
- Mutual trust between employer and employee.
- Norms, values of organization and also the top management behavior (Tower, 1994).

Significantly human resource management is concerned with the demand and supply of the workforce but understanding of knowledge and skills are also amongst the requisites for the organization to achieve its goals and objectives. Human resource management is pertinent to the day to day issues of the workforce. It attracts and enables to manage the performance of the employees to accomplish the organizational objectives. The aim of human resource management is to align the actions of employees with the organizational goals (Rondeau & Wagar, 2002 and Laursen & Foss, 2003).

V. SIGNIFICANCE OF HUMAN CAPITAL MANAGEMENT

It is very important for any organization to attract, fascinate and retain highly capable employees. Mostly, the organizations concentrate on their physical and financial resources but relatively do give a considerable amount of time on its personnel's. However, the organizational employees have formal reporting relationship and chain of command. There must be pragmatic policy to motivate the employees and in turn give them the *ex-gratia* or right benefits. By motivating their employee at the right time; the organization can easily attain the competitive advantage (Edward & Lawler, 2009).

However, keeping highly capable and competent employee is always challenging proposition rather not an easy task. This can only be made possible when the Manager or Supervisors provide proper guidance to the employees. Concisely; provide them with the proper feedback on their performance and at the same time award them with appropriate, righteous and proper compensations and benefits in recognition of thereof. People ought to be motivated so that they become faithful so that their loyalty to the organization is obvious and they sincerely devote their full energy, expertise and talent to complete their given tasks with consummate skill. Organization basically requires three things to manage its highly talented workforce (Edward & Lawler, 2009) as follows:

- Top management must have proper perception, knowledge and skills to manage its employees and also be capable to handle other organizational matters (Edward & Lawler, 2009).
- There must be effective leadership within the organization and it is incumbent on the top management to work on its employees in order to inculcate and develop leadership skills (Edward & Lawler, 2009).
- The workforce must be highly talented having fair amount of awareness of the business

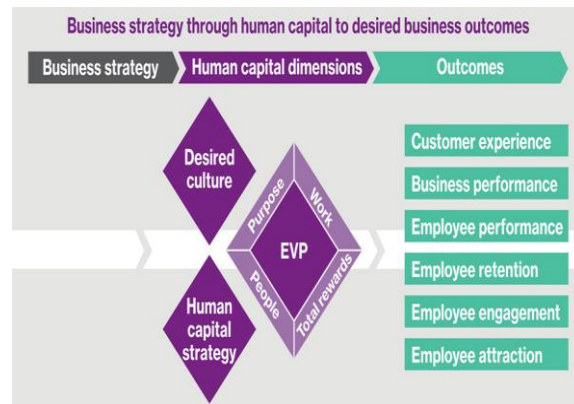
operations and must be capable as to how the personnel can be attracted and managed. (Edward & Lawler, 2009).

In human capital management; resource-based view is of paramount importance because it invariably elaborates how organizational resources help organization to make them uniquely different from its competitors. Resource-based view transpires that organizational personnel's are the most worthwhile asset of an organization and it is hard for the competitors to replicate such human resource (Barney, 1991; Grant, 1991; Peteraf, 1993; Teece et al., 1997). Human capital is consisting of scarce and worthwhile resource that will lead the organization to achieve the competitive edge (Hsu, 2008).

VI. ALIGNED HUMAN CAPITAL FRAMEWORK

- Our human capital framework encompasses three dimensions including desired culture, human capital strategy and the employee value proposition.
- Many HR leaders struggle to align disparate human capital strategies and programs in order to attract, retain and engage the critical talent needed to achieve their organization's business objectives.
- Highly effective organizations tailor their employee value proposition to the different employee groups identified in their talent management strategy.
- As global business challenges become more complex, so too do human capital strategy decisions. Organizations face increasing pressure to disrupt and transform existing business models, requiring HR leaders to quickly grasp the implications of these changes for their programs and the work of their HR organizations.
- In such a dynamic environment, how do companies develop human capital solutions that support their corporate strategy, and will attract and retain the high-value talent required to achieve their organization's business goals? To begin, HR leaders need the ability to view their programs from a holistic perspective in order to understand how different solutions connect and interact with each other.
- To provide a structure and mindset for thinking about all aspects of human capital programs in an integrated manner, we have developed the Willis Towers Watson Human Capital Framework. This framework encompasses three dimensions: desired

culture, human capital strategy and the employee value proposition (see figure).



Research and consulting experience show that if companies get these human capital dimensions right, they will have a higher probability of achieving their range of desired business outcomes, including financial success.

VII. CONCLUSION

In today's knowledge-based economy greater emphasis is adverted to human capital. To survive in the dynamic environment and to achieve the competitive advantage; human capital is of immense priority thus has become very important. Organizations are much concerned with the human capital because they think they can only achieve the competitive advantage with the effective utilization of its human resource. Because of the fact that it is only the workforce of an organization that exclusively and entirely can make it different from its competitors and also it is hard for the competitors to duplicate the same workforce at their respective ends. Now-a-days the organizations are struggling to improve the performance of employees by effectively implementing their human resource practices. Human capital will lead the organizations towards better decision making, extensively effective communication within the organization and generate creative and innovative ideas. It is also ensured that every individual of an organization will get an opportunity to utilize his capacity to the full potential. Given the dissertation as above it can plainly be concluded that Human capital management can only be successful when the organizations are fully prepared to give significant attention towards adapt best knowledge management practices.

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