

Understanding and Measuring Human capital

Human Capital Definition

The term Human Capital has now become common in HR language to describe people and their collective skills, abilities, experience and potential.

Human Capital is one of three elements to make up intellectual capital.

Intellectual capital describes the knowledge assets available to the organizations and is a large part of intangible value.

It can be described as:

- Human capital – the knowledge, skills, abilities and capacity to develop and innovate possessed by people in an organization.
- Social capital – the structures, networks and procedures that enable those people to acquire and develop intellectual capital represented by the stocks and flows of knowledge derived from relationships within and outside the organization.
- Organizational capital –the institutionalized knowledge possessed by an organization which is stored in databases, manuals etc. This would also include HR policies and processes used to manage people.

Defining Human Capital

- There are many definitions of human capital, some of which unfortunately refer just to the efficiency of the HR function - such as the average number of training days per employee.
- ‘A strategic approach to people management that focuses on the issues that are critical to an organization's success .
- A form of asset management: a plan for securing, managing and motivating the workforce capable of achieving business goals .
- Human capital extends well beyond the HR function to encompass the total people strategy of the organization and the management practices needed to optimize performance and drive value creation.
- Human capital owned by all of the business leaders and resides in everyone within the organization.

The Difference Between HCM and Strategic HRM

Andrew Mayo, Professor of, argues that what distinguishes human capital and HCM from HRM is the emphasis on the value of people and what they produce, rather than a focus on the HR function itself.

HCM, unlike HRM, is about assessing the impact of people management practices and the contribution of people to bottom-line performance.

The development of human capital might develop as follows:

- ✚ assessing the effectiveness of HR
- ✚ evaluating the impact and effectiveness of people management processes
- ✚ using human capital data
- ✚ developing measures to calculate the return on investment in people

HCM, which includes strategically-focused areas HCM reporting.

As organizations evolve their human capital evaluation and reporting, they increasingly adopt a more sophisticated approach to their measurement techniques.

HC Measurement and Reporting

Human capital should be viewed as a bridging concept linking business strategy and HR practices.

- ✚ It is a precarious asset – the potential mobility of individual employees could and can undermine an organization's ability to deliver.
- ✚ It is a paradoxical asset – the qualities that individuals bring, notably flexibility, mobility and personal commitment, the very same factors that create competitive value, are some of the most difficult to measure.
 - Human capital measurement is context-dependent.
 - The specific set of measures are less important than the process of measuring and the uses for the information gathered.
 - Focus on internal rather than external reporting, as the latter is impossible without solid internal information.

HC Measurement Frameworks and Models

HCM reporting should demonstrate the link between people management and business performance.

The key is to develop and/or adapt an approach that best suits the thinking and management style of the organization in order to create a framework to link how people are managed with the delivery of business strategy.

The most commonly used models and frameworks for HCM are:

- **The human resource benchmarking model**
- **The balanced scorecard**
- **The Human Capital Monitor**

- **The Human Capital Index**
- **The engagement model**
- **The organizational performance model.**

The HR benchmarking model

Benchmarking is an organized method for collecting data that can be used to improve organizational performance, rather than simply gathering a mass of statistics that add little or no value.

The following methodology can be used to transform benchmarking data into impact;

- Decide where improvement is essential.
- Establish the parameters you're seeking.
- Establish your benchmarking team.
- Specify the data.
- Undertake collection of data.
- Locate suitable benchmarking partners.
- Analyze the results.
- Implement.

Balanced scorecard

This is one of the best-known methodologies. It aligns the evaluation of the people dimension to a company's strategic aims through a balanced scorecard.

The scorecard originally had four elements:

- Financial,
- Customer,
- Internal business process,
- Learning and growth.

The Human Capital Monitor

Andrew Mayo, a member of the CIPD's steering group, has sought to identify the human value of the enterprise or 'human asset worth'. He emphasizes that people should be viewed as an asset rather than a cost.

The main challenges are:

- How an organization should recognize the intrinsic diversity in the worth of its people and value it
- How to create a framework of people-related metrics as part of an organization's overall performance
- How to quantify both the financial and non-financial value to stakeholders.

The process of measurement leads to consider whether human capital is sufficient, increasing or decreasing and highlights issues to address.

The Human Capital Index

Watson Wyatt have constructed a survey of companies linking their key management practices to their market value concluded that four major categories of HR practice could be linked to a 30 per cent increase in shareholder value,

The Engagement Model

The application of the engagement model looked at the employee–customer–profit chain - if you keep your employees satisfied, they will help ensure that your customers remain satisfied, and your customers in turn will ensure and improve your corporate profits.

The result of this, in Measuring and Managing Employee Performance is that the pursuit of employee satisfaction has become interlinked with the concept of HR strategy and business alignment.

The Organizational Performance Model

Human Capital Strategy consists of six interconnected factors:

- People - who is in the organization; their skills and competencies on hiring; what skills and competences they develop through training and experience; their level of qualification.
- Work Processes – how work gets done; the degree of teamwork and interdependence among organizational units; and the role of technology
- Managerial Structure – the degree of employee discretion, management direction and control; spans of control, performance management and work procedures
- Information and Knowledge – how information is shared and exchanged among employees and with suppliers and customers through formal or informal means
- Decision Making – how important decisions are made and who makes them; the degree of decentralization, participation and timeliness of decisions
- Rewards – how monetary and non-monetary incentives are used; how much pay is at risk; individual versus group rewards; current versus longer-term 'career rewards'.