



Human Capital Measurement: Techniques And Reports

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ABSTRACT

In the constantly changing business scenario, accomplishing organizational excellence in the marketplace demands high performance on a continuous basis. Organizations that invest in human capital measurement systems have improved employee performance, retention, and enhanced corporate end results. This has led to a deep-rooted transformation of the role of HRD from being a cost creator to being a strategic partner of an organization. This Human Capital Intervention exhibits the clear links between human capital and a company's effectiveness.

KEY WORDS: Human Capital, Strategic Partner, Performance, Organizational performance

INTRODUCTION

Human capital refers to the "knowledge, information, ideas, skills, and health of individuals" (Becker 2002). ... In the current economic environment and business scenario of globalization, privatization and liberalization, a company's market value depends less on tangible assets and relies more on intangibles resources such as technology, and principally people, the 'Human Capital'. The most challenging of all assets to quantify and control is Human Capital - defined as individual value in an economic sense, and the way it is transformed into the company's collective competence. A company's Human Capital assets is the collective sum of the attributes, life experience, knowledge, inventiveness, energy and enthusiasm that its people choose to invest in their work. Today, a matchless competitive advantage in the marketplace and a massive premium mount up for those organizations that have built up a greater facility for managing human capital. For, example, the sustained superior performance of best practice companies like Marriott, Borg-Warner, Merck, etc., has been accredited to their excellent human capital management.

As developed economies persevere to become more knowledge intensive, a transformation that calls for top executives to focus on human capital management as never before has taken place. Besides, the institutional investors are in quest of diverse measures of human capital to scrutinize a company's strategy and business as they find there is an explicit relation between a company's Human Capital activities and long-term shareholder value. This in turn demands a measurement system to facilitate the optimization of their return on people. Human Capital measurement accentuates the way an organization manage it

people/workforce that engenders a vital contribution to the company's bottom line. Human Capital measurement is all about conveying objective data to guide the direction of HR strategy and to help to formulate better HR investment decisions. Now that human capital measurement has turned out to be the principal root of prosperity and wealth creation and the one that determines rewards in the market place, many conscientious executive have embarked on deploying anew negation of human capital measurement systems. Though HR metrics might measure the efficiency or the time and cost of HR activities, it is the human-capital metrics that measures the effectiveness of such activities; it serves as a guide for organizations that seek superior business results through their improved people management by venturing on the clear linkage between human capital measurement and superior business performance.

REVIEWOF LITERATURE

Hiltrop, J. (1996) the author argues that there is little empirical evidence that HRM policies and practices are improving organizational performance though the theoretical literature on the link between an organizations's HRM and performance is prevalent. And although it will take time before the longitudinal data exists to fully test the theories and models, the evidence is consistent with the view that the HRM policies and practices of an organization have a powerful influence in motivating employees to exhibit the kinds of attitudes and behavior that are needed to support and implement the competitive strategy of an organization. This research raises a number of questions about the nature of these practices including what would be widely recognized as 'best' practices.

Rlando, R. C. & Johnson, N. B. (2001) the authors aim to develop a model that illustrates the complexities of diversity initiatives which may not be appreciated for all organizations. A diversity orientation requires procedural justice for all employees so that a problem of discrimination is not on the highlight. If firms must deal with a diverse workforce, a diversity orientation may yield positive performance effects through the genuine integration and acceptance of diverse employee perspectives which leads to a reduction in turnover and absenteeism.

Truss, C. (2001) The paper contributes to the debate by analyzing in detail the human resource policies and practices of one case-study organization over a two-year time period, using a variety of methodologies and drawing on a broad range of informants across the organization. Instead of devising a list of 'best practice' HRM from the literature and testing its impact on performance, the author invert the question and take a firm that is financially successful and ask what HR policies and practices it uses. This methodology shows that even successful organizations do not always implement 'best practice' HRM, and that there is frequently a discrepancy between intention and practice. Outcomes at the individual and organizational levels are complex and often contradictory; the author questions the extent to which is it at the level of the formal system, and organizational performance, without taking into consideration the role played by the informal organization in the process and implementation of HR policies.

Tyson, S. (1997) this paper describes human resource strategy as a management process, as part of emergent strategy formation. A framework is proposed to explain the different levels of analysis, societal, organizational and individual, which managers seek to integrate so that the meanings organization members bring to their work are managed. The consequences of taking this approach as opposed to the rational view of HR strategy are outlined and the benefits of a processual, intepretationist perspective to the study of strategy for example by studying symbols and the processes of meaning construction are discussed.

OBJECTIVES

1. To assess the human capital metrics that measures the effectiveness of organizations

METHODOLOGY

Exploratory research design is used as well as for this article, secondary data is used. In order to gain the knowledge on this area various reviews and periodicals were studied.

DISCUSSION

Carving a Firm's Competitive Advantage

Since the past decade, with the emergence of knowledge intensive and global economy, it has become obvious that an effective management and measurement of a company's human capital are a significant source of unremitting competitive advantage for the organization. As competition in the market place becomes more intense in terms of market differentiation and with investors seeking additional information about the company to decide their investment decision, it is becoming a necessity for a firm to progress towards Human Capital measurement and improve its quality and relevance. It enables the company to utilize the information generated to diagnose the organizational status, enhance the cognizance of its 'people-related' supremacy and weakness, to divulge areas of poor performance, to identify areas for improvement and to specify the actions needed to steer the business towards its predetermined strategic goals and organizational objectives.

Thus, organizations aim at becoming an effective enterprise with high performance workforce profile by expanding their use of Human Capital Measurement; this will enable them to gain and sustain competitive advantage in terms of HR Cost, Quality and Delivery. It produces significant return on investment, revenue growth and shareholders' maximization. For example, the successful Human Capital experimentation in RG Barry Corporation (the pioneer in human capital accounting) to Infosys human capital practices confirms that Human Capital is the real source for a firm's sustained market place success on account of its incredible returns on investment and revenue escalation.

The Strategic Importance of Human Capital Measurement

Human Capital measurement has a major role in bringing HR closer to its strategic role by demonstrating the people's value creation, which buys HR credibility in gaining a seat at the strategic decision-making table. Human Capital measurement creates a major impact on the growth and accomplishment of an organization's future by its attention to those crucial issues such as Return on Investment (ROI) of Human Resource activities, guiding investment decision, understanding the benefits and trade-offs in people decision which signifies that an HR department is no longer looked upon as 'costs' but rather as profit generators and the employees' competencies as source of wealth creation.

Indeed, a growing number of research studies have pointed to Human Capital measurement being the single most crucial predictor of an organization's capacity to beat competition in the market place by providing guidance in investment decisions, and performance management. It also provides crucial timely information of strategic importance to the management that enables comparison over time with other organizations, thus bringing the HR department to play a strategic role.

An effective human capital measurement /valuation pave the way to six major benefits for an effective functioning of an organization. They are:

- a) Human Capital valuation provides good financial sense; each HR program should present an appropriate ROI.
- b) Evaluation of human capital shows confirmation of result.
- c) The evaluated results make the HR staff to focus only on vital activities.
- d) The cause of problems is identified during the data collection for evaluations.
- e) Results of measurement and valuation provide justification for additional resources.
- f) Human capital measurement increases satisfaction of the employees and the shareholders.

The Prime Measures of Human Capital

The scope of human potential in business productivity is overpowering. Many organizations have deployed extensive process and rational e –driven metrics to drive human performance. In the article “Human capital measurement: A Challenge for the CLO” by Jack J Phillips, has pointed out that recently, “Deloitte Human Capital and Conference Board had come out with the common human capital measures that serve as a catalyst for change, providing a critical missing link for creating and sustaining competitive advantage for organizations.” It divided the common measures of Human Capital into two tiers and they are:

First Tier Measure – Employee retention / Turnover, Employee attitude / Satisfaction, Employee engagement / Commitment, Tenure, Experience, Learning, HR Investment and Competency.

Second Tier Measure - Represents the next most common human capital measures. Examples include Work-life balance, Compensation, Recruitment success, Health and safety, Labour management relations, Absenteeism, Employee ownership, Workforce age, etc.

Research has revealed that there are also five kinds of Human Capital management factors, each with a core set of measures an organization should tract by means of Human Capital measurement systems that constantly envisage the corporate results. The five types of measures are:

- **Leadership Performance:** A leader’s communication and managerial skills, performance feedback, exposition of prime organizational values, efforts and aptitude to instill confidence in the workforce. Leadership effectiveness is commonly measured by 360 degree feedback where the leadership behavior is assessed by all stakeholders. The measure is basically an observation captured in survey, often reported electronically. It is an important way to capture overall leadership behavior change. Some firms gauge the leadership success through routine feedback program – annual satisfaction/commitment survey.
- **Employee Performance Optimization:** A company’s success in gaining optimum workforce performance depends on the institution of necessary process for getting work done, provision of good working environment, strong employment decisions, and prominence of employee accountability on their actions/jobs.
- **Leadership competence:** A wholesome representation of the company’s capability in learning, innovating and mounting interest to constantly improve their performance with time and also across

organizations. Competencies are usually measured through self-assessment by individual employees, as well as assessment by the team, facilitator and immediate manager.

- **Ease of access to knowledge:** This measure provides a picture of the effectiveness teamwork of an organization and its capability in disseminating knowledge and ideas extensively to the employees.
- **Employee engagement / commitment:** Indicates an organization's ability to engage, maintain and optimize its employee's value. An engaged workforce has a significant impact on the company's bottom line. The Human Capital Management's engagement technique not only helps in employees, especially the high performing workers.

These factors can be measured in an organization by means of a cautious and meticulously on structured employee survey whose content in the survey varies depending on each organizational type and situation. Using statistical techniques principles of a quasi-experimental design combined with the surveys, one can identify and quantify the causal relationships between inputs and outcomes for each of the five Human Capital categories, as well as their specific components, which can be linked to a range of alternative measures of corporate end results. Such correlations provide managers with a clear prioritization – a realistic and actionable roadmap for effective Human Capital management initiatives that engenders an enormous improvement in business performance end results.

Generally, Human Capital measurements range from basic metrics to comparative information, from scorecards to predictive models. Human Capital measurement provides significant correlation that predicts workforce behavior and Human Capital investment needs will in advance of the annual budget. The current state of Human Capital measurement in most organizations consists of a varied combination of the following measurements:

Traditional HR metrics that can measures the efficiency and effectiveness of HR activities of HRD.

Example:

Training Cost/Employee = Total Cost of Training Program/Total No.of Employees Attended

Employee satisfaction surveys that being integrated with HRMs can generate data that serve as a guide to predict the organization's future course. Ex. Absenteeism, Labor turnover, etc.

Balanced score card measures are forward-looking and predictive and check the organizational progress and productivity. They also evaluate the effectiveness of HR practices. It is a strategic management system that channels the energies and abilities of the people in the organization for achieving organizational goals. Eg: Predicting the percentage of managers who are successful in the development program.

Return on Investment (ROI) Models is useful in justifying the investment in people's programs. Such predictive models guide one as to how much and where to invest the people's money that enables one to comprehend ROI on recruiting / training new hires, motivating/enhancing skills of the present employees or deploying new practices and procedures.

Example:

$$\text{Human Capital (ROI)} = \text{Revenue} - (\text{Expenses} - \text{Compensation}) / \text{Compensation}$$

The model helps in evaluating the returns for every rupee spent on employees.

- **Human Capital Measurement – The Vital Characteristics**
- To be of greatest use to a leader in the effective administration and employment of people in an organization, a human capital measurement of the next generation system must possess the following six vital characteristics, says Lautie Bassi, CEO of McBassi & Company. They are:
- **Descriptive data:** A Human Capital measurement system ought to generate summary statistics that offer a clear and concise summary for each issue concerned. Descriptive data focuses on the incidence of an event, and its regularity/intensity. For example, it scrutinizes the degree or extent to which a best practice is actually being executed in an organization.
- **Credibility:** The system must be designed in a way that it provides a credible and unbiased insight that improves business results. ROI initiatives such as metrics that measure training ROI initiatives such as metrics that measure training ROI belong to this group.
- **Predictability:** the system must create statistics that aid a company to predict its future. Predictive measures are the ones that have a direct link to a company's desired business results. Eg: Human Capital performance metrics.
- **Detailed information:** the information generated should be adequately clear and elaborate to provide insights on action to be taken. Eg: All information must be accessible across departments or business units for a positive intervention to be deployed in areas where it would be more successful. Eg: Human Capital score cards and HC accounting.
- **Actionable data:** The measurement system must center on those subjects where an organization can exercise influence and take essential steps based on the recommendable data that drives business results. Eg: The Gallup Q12 employee survey, though detailed and descriptive, cannot be taken as an effective measure of HC as it lacks actionable data.
- **Cost-effective:** The Human Capital measurement system must be cost-effective for enduring usage.

Human Capital Reporting and Benchmarking

By means of various human capital measurement techniques, one can generate meaningful information that is credible enough for taking the right strategic moves for the future direction of the company's activities. They effectively link the human capital measures to business end results through effective human capital management. Statistical techniques using the quasi-experimental design are also used to provide the managerial executives information regarding the effect of each Human Capital measure on company's performance, and quantify the causal relationships between various measures and end results. Such evaluation provides an insight into what is the result, why it had happened, and what actions are to be taken to obtain sustainable optimized organizational performance.

The information generated and benchmarked is of strategic importance, affecting the company's bottom line, by providing a feedback for organizational actions to develop new strategies which enhance business management. Effective human capital measurement and reports result in

- Increased revenue/employee
- Profit per employee can be 50 per cent or more in some cases,
- Low absenteeism rate and employee turnover
- Improved workforce performance and
- Increased employee engagement

It helps in external reporting of human capital that

- Reduces the difference between book value and market value
- To know the company's "real value"
- Increased information system
- Enhanced capital raising power through intangible valuations presented in the company's accounting reports and balance sheets
- Boosts organization's reputation as employer of choice/best place to work for

The Human Capital report should be presented in a complete and comprehensible format with graphical representations, small textual summary wherever necessary to offer enhanced user-friendliness and readability of the human capital data or it can also be presented in the form of HR scorecard which is imperative for organizational management and employees besides HR professionals to benchmark their performance and to manage their businesses with unprecedented excellence,

The following are a few examples of how one can get a company's Human Capital information by benchmarking their performance with time/across organizations. They are:

- **Innovativeness and creativity:** Keeping track of the employee's suggestion rate of and comparing it with time and across companies in the market place is a vital performance benchmarking of Human Capital innovativeness and creative capability. It can also be measured through inventories and instruments by inserting questions on creativity and innovation in the annual employee satisfaction surveys. The score obtained are comparable over time, reflecting the degree of employee's improvement in workplace innovation and creativity.
- **Employee satisfaction and attitude:** Employers can monitor the degree of employee's satisfaction through a feedback survey that reflects their extent of satisfaction with their employer, the job, the policies, the work atmosphere, the administration and leadership. A composite score is developed to reveal the satisfaction value or index value for the company / department which can be benchmarked for reporting.
- **Turnover / Retention:** Employee turnover status of a company can be compared to historical rates or compared with best-practice firms/employer of choice.

Conclusion

In the current business scenario of knowledge intense global competition, it is the human talent that is the major market differentiator of a company's success in the market place. Effective management and measurement of human capital is the call of the day that produces a significant impact upon the long term performance of the company. A thorough analysis of human capital will be able to transform data into significant and valuable strategic information by predicting the future organizational performance – both financial and non-financial. Measuring the performance of the human capital and representing those concerns in the company's reports make a significant difference in the growth and success of the organization. The top management should be in the best position to take the initiative to drive human capital measurement in an organization in order to provide a critical bond for creating and sustaining competitive advantage of a company and for shareholder's profit maximization. An organization with a clear Human Capital strategy that is aligned with the corporate direction and with quality HR practices enjoys an enhanced workforce performance that gets reflected in the firm's financial performance in the market.

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