INTEGRATED INSTITUTE OF PROFESSIONAL MANAGEMENT

Our Accreditations

FEDERAL MINISTRY OF EDUCATION

SHRM®
SOCIETY FOR HUMAN RESOURCE MANAGEMENT

Our Standards

ISO

PMI®
Project Management Institute

Human Capital Management

Learning outcomes

- The concept of human capital

- Constituents of human capital

- Importance of human capital measurement (HCM)

- Approaches to measurement

- Factors affecting choice of measurement

- Characteristics of human capital

- Significance of human capital theory

- Reasons for interest in HCM

- Measurement elements

- Criteria for HCM data for managers

Human Capital Management (HCM) defined

- HCM is concerned with obtaining, analyzing and reporting on data that inform the direction of value-adding people management, strategic, investment and operational decisions at corporate level and at the level of front line management.

- It is ultimately about value.

- HCM provides a bridge between HR and business strategy.

The concept of human capital

Individuals generate, retain and use knowledge and skill (human capital) and create intellectual capital. Their knowledge is enhanced by the interactions between them (social capital) and generates the institutionalized knowledge possessed by an organization (organizational capital).

Human capital

Human capital consists of the knowledge, skills and abilities of the people employed in an organization.

- **Human Capital contd.**

Human capital represents the human factor in the organization; the combined intelligence, skills and expertise that gives the organization its distinctive character. The human elements of the organization are those that are capable of learning, changing, innovating and providing the creative thrust which if properly motivated can ensure the long-term survival of the organization.

The constituents of human capital

Human capital consists of intellectual, social and organizational capital.

Intellectual capital

- defined as the stocks and flows of knowledge available to an organization. These can be regarded as the intangible resources associated with people which, together with tangible resources (money and physical assets), comprise the market or total value of a business.

- Intangible resources as the factors other than financial and physical assets that contribute to the value generating processes of a firm and are under its control.

- ***Social capital***

  It consists of the knowledge derived from networks of relationships within and outside the organization.

- ***Organizational capital***

  Organizational capital is the institutionalized knowledge possessed by an organization that is stored in databases, manuals, etc. It is often called 'structural capital'.

The significance of human capital theory

The added value that people can contribute to an organization is emphasized by human capital theory. It regards people as assets and stresses that investment by organizations in people will generate worthwhile returns. Human capital theory is associated with the resource-based view of the firm. This proposes that sustainable competitive advantage is attained when the firm has a human resource pool that cannot be imitated or substituted by its rivals. This situation is one that confers **'human capital advantage'.**

An approach to people management based on human capital theory involves obtaining answers to the following Questions;

- What are the key performance drivers that create value?
- What skills do we have?
- What skills do we need now and in the future to meet our strategic aims?
- How are we going to attract, develop and retain these skills?
- How can we develop a culture and environment in which organizational and individual learning takes place that meets both our needs and the needs of our employees?
- How can we provide for both the explicit and tacit knowledge created in our organization to be captured, recorded and used effectively?

Human capital theory helps to:

- determine the impact of people on the business and their contribution to shareholder value;

- demonstrate that HR practices produce value for money in terms, for example, of return on investment;

- provide guidance on future HR and business strategies;

- provide data that will inform strategies and practices designed to improve the effectiveness of people management in the organization.

Human Capital Measurement

- Human capital measurement is 'about finding links, correlations and ideally, causation between different sets of (HR) data, using statistical techniques'.

- The primary aim of HCM is to assess the impact of human resource management practices and the contribution made by people to organizational performance.

The need for human capital measurement

- To aid in people management decision making.
- To develop a framework within which reliable information can be collected and analyzed such as added value per employee, productivity and measures of employee behaviour (attrition and absenteeism rates, the frequency/ severity rate of accidents, and cost savings resulting from suggestion schemes).

Reasons for the interest in measuring the value and impact of human capital

- Human capital constitutes a key element of the market worth of a company.

- People in organizations add value and there is a case for assessing this value to provide a basis for HR planning and for monitoring the effectiveness and impact of HR policies and practices.

- The process of identifying measures and collecting and analyzing information relating to them will focus the attention of the organization on what needs to be done to find, keep, develop and make the best use of its human capital.

- Measurements can be used to monitor progress in achieving strategic HR goals and generally to evaluate the effectiveness of HR practices.

- You cannot manage unless you measure.

Approaches to HCM measurement

- Three approaches to measurement are;

1. The human capital index – Watson Wyatt

- Watson Wyatt (2002) identified four major categories of HR practice that could be linked to increases in shareholder value creation. These are:

- total rewards and accountability

- collegial, flexible workforce

- recruiting and retention excellence

- communication integrity

2. The organizational performance model – Mercer HR Consulting

The organizational performance model developed by

Mercer HR Consulting is based on the following elements:

- people,

- work processes,

- Management structure,

- information and knowledge, and

- Decision making and rewards,

Each of which plays out differently within the context

of the organization, creating a unique DNA(structure) for the organization.

3. *The human capital monitor – Andrew Mayo*

Andrew Mayo (2001) developed the 'human capital monitor' to identify the human value of the enterprise or 'human asset worth', which is equal to 'employment cost × individual asset multiplier'.

- This is a weighted average assessment of capability, potential to grow, personal performance (contribution) and alignment to the organization's values set in the context of the workforce environment (i.e. how leadership, culture, motivation and learning are driving success).

Measurement Data

Main HCM data used for measurement

- Basic workforce data – demographic data (numbers by job category, sex, race, age, disability, working arrangements, absence and sickness, turnover and pay).

- People development and performance data – learning and development programmes, performance management/potential assessments, skills and qualifications.

- Perceptual data – attitude/opinion surveys, focus groups, exit interviews.

- Performance data – financial, operational and customer.

Human capital internal reporting

- Analyzing and reporting human capital data to top management and line managers will lead to better informed decision making about what kind of actions or practices will improve business results, increased ability to recognize problems and take rapid action to deal with them, and the scope to demonstrate the effectiveness of HR solutions and thus support the business case for greater investment in HR practices.

- It is necessary to be clear about what data is required and how it will be communicated and used.

The factors affecting the choice of what should be reported in the form of metrics are:

• the type of organization – measures are context dependent;

• the business goals of the organization,

• the business drivers of the organization,

• the existing key performance indicators (KPIs) used in the organization,

• the use of a balanced scorecard which enables a comprehensive view of performance to be taken by reference to four perspectives: financial, customer, innovation and learning and internal processes;

• the availability of data,

• the use of data ,

• the manageability of data.

Human capital information is usually reported internally in the form of management reports providing information for managers, often through the intranet and on dashboards. However, this information will not be valued by managers unless:

• it is credible, accurate and trustworthy;

• they understand what it means for them personally and how it will help them to manage their team;

• it is accompanied by guidance as to what action can be taken;

• they have the skills and abilities to understand and act upon it.

Congratulations