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# EFFECTIVENESS OF HUMAN CAPITAL MANAGEMENT IN THE ORGANIZATIONAL CHANGE AND ECONOMIC GROWTH

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***Abstract***
*The conventional view of managing the human resources has transformed into managing of human capital. The human capital has moved one step ahead than Human resources by emphasizing on what people can bring and contribute to organizational success. The study on literature highlighted that, countries managing human capital better are more likely to have better economic results. The value that human capital bring to the overall increase of organizational productivity has been encouraging for the organizations to adopt human capital management practices. Keeping in view of the significance of human capital, the present paper focuses on highlighting on understanding relationship between Human resources and Human Capital, views on human capital and effectiveness of Human capital on Economic Growth.*

***Key words: Competitive Growth, Economic growth, intellectual capital, Tier measures.***

## 1. Introduction

Any company that wants to achieve great success needs to pay close attention to human capital management. The employees of a company are the biggest asset it has and by keeping that asset strong, the company has the best chance of success. A company that pays little attention to its employees will end up with a team of employees who are unmotivated and unproductive. Human capital management can be the difference between a company with a winning team of employees all pulling together toward a shared goal, and a demoralized group who are providing little overall value.

It is important that each and every member of the team is considered as an individual, each with their own set of strengths and weaknesses. Human capital management assumes that any lack of knowledge amongst the employees of a company is purely down to lack of training or teaching, rather than looking upon it as a fault of an individual or a team.

Human capital management provides a strategic approach to managing staff at a company. It differs from traditional HR practices as it is concerned less with administrative tasks and procedures and focuses more on getting the most out of staff for a happy and productive team. Companies who currently not have any type of human capital management program in place should think carefully about implementing one. The employees benefit greatly from human capital management which in turn means the company benefits greatly too.

The approach to managing and organizing employees through a human capital management program is done in a number of ways. In essence, the approach should provide a fully inclusive strategy from even before a new employee is hired right through to their exit. Another important part of human capital management is succession planning and talent management. Being able to identify key members of staff as possible future managers can make the decision-making process for current senior management more straight forward, and allow for greater ease with forward planning.

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**2. Conceptual overview of Human Capital Management**

Human capital management (HCM) is concerned with obtaining, analysing and reporting on data that informs the direction of value-adding people management, strategic investment and operational decisions at corporate level and at the level of front-line management. The defining characteristic of HCM is this use of metrics to guide an approach to managing people that regards them as assets and emphasizes that competitive advantage is achieved by strategic investments in those assets through employee engagement and retention, talent management and learning and development programmes.

In the words of Dess & Picken(2000), Human capital is 'generally understood to consist of the individual's capabilities, knowledge, skills and experience of the company's employees and managers, as they are relevant to the task at hand, as well as the capacity to add to this reservoir of knowledge, skills, and experience through individual learning'.

HCM is defined by Kearns (2005b) as The total development of human potential expressed as organizational value.' He believes that 'HCM is about creating value through people' and that it is 'a people development philosophy, but the only development that means anything is that which is translated into value'.

**3. Relationship between managing Human Resources and Human Capital**

Human capital is not solely the people in organizations— it is what those people bring and contribute to organizational success. Human capital is the collective value of the capabilities, knowledge, skills, life experiences, and motivation of an organizational workforce.

Sometimes human capital is called intellectual capital to reflect the thinking, knowledge, creativity, and decision making that people in organizations contribute. For example, firms with high intellectual capital may have technical and research employees who create new biomedical devices, formulate products that can be patented, or develop new software for specialized uses. All these organizational contributions illustrate the potential value of human capital. A few years ago, a Nobel prize-winning economist, Gary Becker, expanded the view of human capital by emphasizing that countries managing human capital better arc more likely to have better economic results.'

The importance of human capital in organizations can be seen in various ways. One is sheer costs. In some industries, such as the restaurant industry, employee-related expenditures may exceed 60% of total operating costs. With such significant levels comes an increasing need to measure the value of human capital and how it is changing through HR metrics.

In the opinion of Mayo (2001) the essential difference between HCM and HRM is that the former treats people as assets while the latter treats them as costs. Kearns (2005b) believes that in HCM 'people are value adders, not overheads' while in HRM 'people are (treated as) a significant cost and should be managed accordingly'. According to Kearns, in HRM 'the HR team is seen as a support service to the line' - HR is based around the function and the HR team performs 'a distinct and separate role from other functions'. Conversely, 'HCM is clearly seen and respected as an equal business partner at senior levels' and is 'holistic, organization-wide and systems-based' as well as being strategic and concerned with adding value.

The claim that in HRM employees are treated as costs is not supported by the descriptions of the concept of HRM produced by American writers such as Beer et at (1984). In one of the seminal texts on human

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resource management, they emphasized the need for: 'a longer-term perspective in managing people and consideration of people as potential assets rather than merely a variable cost'. Fombrun et al (1984), in the other seminal text, quite explicitly presented workers as a key resource that managers use to achieve competitive advantage for their companies. Grant (1991) lists the main characteristics of human resources in his general classification of a firm's potential resources as follows:

1. The training and expertise of employees determines the skills available to the firm.
2. The adaptability of employees determines the strategic flexibility of the firm.
3. The commitment and loyalty of employees determine the firm's ability to maintain competitive advantage.

Cappelli and Singh (1992) propose that competitive advantage arises from firm-specific, valuable resources that are difficult to imitate, and stress 'the role of human resource policies in the creation of valuable, firm-specific skills'. Other writers confirmed this view.
The HRM argument is that people are not to be seen as a cost, but as an asset in which to invest, so adding to their inherent value.

Of course, all these commentators are writing about HRM as a belief system, not about how it works in practice. The almost universal replacement of the term 'personnel management' with HR or HRM does not mean that everyone with the job title of HR director or manager is basing their approach on the HRM philosophy. Guest commented in 1991 that HRM was 'all hype and hope'.

A survey conducted by Caldwell (2004) provided some support to this view by establishing that the five most important HR policy areas identified by respondents were also the five in which the least progress had been made. For example, while 89 per cent of respondents said the most important HR policy was 'managing people as assets which are fundamental to the competitive advantage of the organization', only 37 per cent stated that they had made any progress in implementing it.

However, research conducted by Hoque and Moon (2001) found that there were significant differences between the activities of those described as HR specialists and those described as personnel specialists. For example, workplace-level strategic plans are more likely to emphasize employee development in workplaces with an HR specialist rather than a personnel specialist, and HR specialists are more likely to be involved in the development of strategic plans than are personnel specialists.

Both HRM in its proper sense and HCM as defined above treat people as assets. Although, as William Scott-Jackson, Director of the Centre for Applied HR Research at Oxford Brookes University argues (Oracle, 2005), Tou can't simply treat people as assets, because that depersonalizes them and leads to the danger that they are viewed in purely financial terms, which does little for all-important engagement.'

However, there is more to both HRM and HCM than simply treating people as assets. Each of them also focuses on the importance of adopting an integrated and strategic approach to managing people, which is the concern of all the stakeholders in an organization, not just the people management function. So how does the concept of HCM reinforce or add to the concept of HRM? The answers to that question are that HCM:

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a. draws attention to the importance of what Kearns (2005b) calls 'management through measurement', the aim being to establish a clear line of sight between HR interventions and organizational success;
b. strengthens the HRM belief that people are assets rather than costs;
c. focuses attention on the need to base HRM strategies and processes on the requirement to create value through people and thus further the achievement of organizational goals;
d. reinforces the need to be strategic;
e. emphasizes the role of HR specialists as business partners;
f. provides guidance on what to measure and how to measure;
g. underlines the importance of using the measurements to prove that superior people management is delivering superior results and to indicate the direction in which HR strategy needs to go.

The concept of HCM complements and strengthens the concept of HRM. It does not replace it. Both HCM and HRM can be regarded as vital components in the process of people management. The choices they make include how much discretionary behaviour they are prepared to exercise in carrying out their role (discretionary behaviour refers to the discretion people at work can exercise about the way they do their job and the amount of effort, care, innovation and productive behaviour they display). They can also choose whether or not to remain with the organization.

## 4. Significance of Human Capital Management

Human capital is a loose term that refers to knowledge, experience and skills of an employee. The theory of human capital is relatively new in finance and economics. It states that companies have an incentive to seek productive human capital and to add to the human capital of their existing employees. Put another way, human capital is the concept that recognizes labor capital is not homogeneous.

In the 1960s, economists Gary Becker and Theodore Schultz pointed out that education and training were investments that could add to productivity. As the world accumulated more and more physical capital, the opportunity cost of going to school declined. Education became an increasingly important component of the workforce. The term was also adopted by corporate finance and became part of intellectual capital. Intellectual and human capital is treated as renewable sources of productivity. Organizations try to cultivate these sources, hoping for added innovation or creativity. Sometimes, a business problem requires more than just new machines or more money.

The possible downside of relying too heavily on human capital is that it is portable. Human capital is always owned by the employee, never the employer. Unlike structural capital equipment, a human employee can leave an organization. Most organizations take steps to support their most useful employees to prevent them from leaving for other firms.

**Human capital Management becomes significant for business organization due to the following reasons.**

i. **Objective: -** Human capital Management helps a company to achieve its objective from time to time by creating a positive attitude among workers. Reducing wastage and making maximum use of resources etc.

ii. **Facilitates professional growth: -** Due to proper Human capital policies employees are trained well and this makes them ready for future promotions. Their talent can be utilized not only in the company in which they are currently working but also in other companies which the employees may join in the future.

iii. **Better relations between union and management: -** Healthy Human capital Management practices can help the organization to maintain co-ordinal relationship with the unions. Union members start realizing that the company is also interested in the workers and will not go against them therefore chances of going on strike are greatly reduced.

iv. **Helps an individual to work in a team/group: -** Effective Human capital practices teach individuals team work and adjustment. The individuals are now very comfortable while working in team thus team work improves.

v. **Identifies person for the future: -** Since employees are constantly trained, they are ready to meet the job requirements. The company is also able to identify potential employees who can be promoted in the future for the top-level jobs. Thus, one of the advantages of HCM is preparing people for the future.

vi. **Allocating the jobs to the right person: -** If proper recruitment and selection methods are followed, the company will be able to select the right people for the right job. When this happens the number of people leaving the job will reduce as the will be satisfied with their job leading to decrease in labour turnover.

**5. Views on Human Capital Management**

According to Jack J Philips, Human capital management is a typical challenge that organizations need to face to cope up with the global environment. The author has extensively studied the human capital management in Deloitte Company. He has identified two tier measures that will have significance on Human capital management. Author has pointed out that, "Deloitte human capital and conference Board had come out with the universal human capital measures that serve as a catalyst for change, providing a critical missing link for creating and sustaining competitive advantage for organizations."
He has classified HC measures into 2 tiers:

**First Tier Measures**

1. Employee Turnover
2. Employee Satisfaction / Attitude
3. Employee Engagement / Commitment
4. Employee Tenure
5. Employee Experience
6. Employee Learning / Learning Organization
7. HR investment
8. HR competency

**Second Tier Measures**

1. Work life balance
2. Compensation
3. Recruitment
4. Health and safety
5. Industrial Relations / Labor Management Relations
6. Absenteeism

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7. Employee ownership
8. Workforce age

The Human Capital measures are soft measures that have the strongest link to a company's financial success.

The Accounting for People Task Force Report (2003) stated that HCM involves the systematic analysis, measurement and evaluation of how people policies and practices create value. The report defined HCM as 'an approach to people management that treats it as a high level strategic issue rather than an operational matter "to be left to the HR people" '. The Task Force expressed the view that HCM 'has been under-exploited as a way of gaining competitive edge'. As John Sunderland, Task Force member and Executive Chairman of Cadbury Schweppes pic commented: 'An organization's success is the product of its people's competence. That link between people and performance should be made visible and available to all stakeholders.'

Nalbantian el al (2004) emphasize the measurement aspect of HCM. They define human capital as, 'The stock of accumulated knowledge, skills, experience, creativity and other relevant workforce attributes' and suggest that human capital management involves 'putting into place the metrics to measure the value of these attributes and using that knowledge to effectively manage the organization'.

**6. Relationship between Human Capital Management and Economic Growth**

Human capital and economic growth have a strong relationship. Human capital affects economic growth and can help to develop an economy through the knowledge and skills of people. Human capital refers to the knowledge, skill sets and motivation that people have, which provide economic value. Human capital realizes that not everyone has the same skill sets or knowledge and that quality of work can be improved by investing in people's education.

Economic growth is an increase in an economy's ability, compared to past periods, to produce goods and services. It can be measured by measuring the percentage in the real gross domestic product (GDP) of a country. For example, suppose a country increased its real GDP at an annual rate of 2.5%. This country is experiencing economic growth and has an increase in the value of all goods and services.

Human capital is directly related to economic growth. The relationship can be measured by how much is invested into people's educations. For example, many governments offer higher education to people at no cost. These governments realize that the knowledge people gain through education helps develop an economy and leads to economic growth. A company can help increase human capital and increase economic growth as well. For example, consider a computer programmer works at a technology company; she receives on-site training, attends in-house seminars and the company pays for part of her tuition for higher education. If she decides to stay at the firm, she may develop new ideas and new products for the company. However, she may leave the company later in her career and use the knowledge she attained to start a new company. This investment in human capital, then, eventually leads to economic growth.

**7. Conclusions**

The study on Human Capital management reveal that, the conventional view of treating the people in the organization has changed and the employees or people have been weighed as human capital. The contribution towards organizational productivity as well as economic growth has been well achieved

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through effective management of human capital. Through applying better human capital measures, the organization's financial success can be achieved more effectively. The study further reveal that, in order to increase economic growth of the company there by contribution to national economic building, effective management of human resources is most important task that companies need to focus upon.

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