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**SCHOOL OF MANAGEMENT STUDIES**

# UNIT – I – HUMAN CAPITAL MANAGEMENT – SBAA7018

# UNIT 1 – HUMAN CAPITAL CONCEPT

## 1. INTRODUCTION TO HUMAN CAPITAL MANAGEMENT

Employees are the lifeline of an organization. An organization can't survive if there are no employees. Organization runs with the help of individuals who contribute in their own way in its success and productivity. Employees spend maximum part of their day in offices and strive hard to achieve the goals and objectives of the organization. Every organization invests its money and resources to train new employees. Employees in turn work hard, upgrade their existing knowledge and contribute in their own way to increase the productivity of their organization.

The word "Human Capital" was introduced by A. W. Lewis in "Economic Development with Unlimited Supplies of Labour". Human capital is defined as the collective stock of skills, attributes, knowledge, and expertise of employees which further plays an integral role in increasing the productivity of the organization.

### 1.2 What is Human Capital Management?

Human Capital is "the sum of a workforce's skills, knowledge and experience"
Human Capital Management: "A Strategic responsibility increasingly shared by all an organization's Leaders"
"A strategic approach to marshalling, managing and maintaining the human capital needed to maximize organizational performance".

### 1.3 HCM – Fundamental Principles

**People are assets** whose value can be enhanced through investment. The goal is to maximize value while managing risk.
**HR** traditionally seen as a cost centre but is increasingly being seen as **a strategic partner**
An organization's Human Capital approaches should be designed, implemented and assessed by the standard of how well they help the organization achieve results and peruse its mission.

1.4 H**uman Capital Management is important for:**

- ❖ Hiring the right talent
- ❖ Orienting him/her to the organization
- ❖ Making a new employee feel comfortable
- ❖ Training employees in order to constantly upgrade their skills
- ❖ Retaining employees
- ❖ Making employees self sufficient and prepare them for adverse conditions

**1.5 The benefits of human capital management:**

- ❖ Human capital management helps in extracting the best out of employees.
- ❖ Human Capital Management enables the human resource professionals to hire the right candidate for the right role.
- ❖ Human Capital management enables free flow of information between superiors and subordinates.
- ❖ Human Capital management makes an employee self sufficient by providing Training and skill development activities are essential for upgrading the existing knowledge of employees.
- ❖ Human Capital Management highlights the importance of soft skills and personality development for employees.
- ❖ Human Capital management helps the employees to improve in areas where they feel they are lacking.

## 2. THE CONCEPT OF HUMAN CAPITAL

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.

**2.1. Intellectual capital -** Intellectual capital describes the knowledge assets available to the organizations and is a large part of intangible value, which is 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.

**2.2. Social capital -** Social capital is another element of intellectual capital. It consists of the knowledge derived from networks of relationships within and outside the organization. The concept of social capital has been defined by Putnam (1996: 66) as 'the features of social life – networks, norms and trust – that enable participants to act together more effectively to pursue shared objectives'. In other words t*he 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.

**2.3. Human capital** - *The knowledge, skills, abilities and capacity to develop and innovate possessed by people* in an organization

**2.4. Organizational capital -** Organizational capital is t*he institutionalized knowledge possessed by an organization* that is stored in databases, manuals, etc. It is often called "structural capital".

## 3. PRACTICAL IMPLICATIONS OF INTELLECTUAL CAPITAL THEORY

**3.1. Intellectual capital** is the group of knowledge assets that are attributed to an organisation and most significantly contribute to an improved competitive position of this organisation by adding value to defined key stakeholders'

In otherwords "the possession of knowledge, applied experience, organisational technology, customer relationships and professional skills that provide with a competitive edge in the market"

### 3.2. Intellectual capital is normally classified as follows:

**3.2.1. Human capital**, the value that the employees of a business provide through the application of skills, know-how and expertise. Human capital is an organization's combined human capability for solving business problems and exploiting its Intellectual Property. Human capital is inherent in people and cannot be owned by an organization. Therefore, human capital can leave an organization when people leave, and if management has failed to provide a setting where others can pick up their know-how. Human capital also encompasses how effectively an organization uses its people resources as measured by creativity and Innovation.

**3.2.2.** **Structural capital,** the supportive non-physical infrastructure, processes and databases of the organisation that enable human capital to function. Structural capital includes processes, patents, and trademarks, as well as the organization's image, organization, information system, and proprietary software and databases. Because of its diverse components, structural capital can be classified further into organization, process and innovation capital. Organizational capital includes the organization philosophy and systems for leveraging the organization's capability. Process capital includes the techniques, procedures, and programs that implement and enhance the delivery of goods and services. Innovation capital includes intellectual property such as patents, trademarks and copyrights, and intangible assets. Intellectual properties are protected commercial rights such as patents, trade secrets, copyrights and trademarks. Intangible assets are all of the other talents and theory by which an organization is run.

**3.2.3.** **Relational capital**, consisting of such elements as customer relationships, supplier relationships, trademarks and trade names (which have value only by virtue of customer relationships) licences, and franchises. The notion that customer capital is separate from human and structural capital indicates its central importance to an organization's worth. The value of the relationships a business maintains with its customers and suppliers is also referred as goodwill, but often poorly booked in corporate accounts, because of accounting rules.

**The practical implications of intellectual capital theory are examined below:**

| INTELLECTUAL CAPITAL THEORY | PRACTICAL IMPLICATIONS |
|---|---|
| **Intellectual capital** is organizational knowledge that is translated into business performance. | **Intellectual capital** is knowledge that is translated into job and organizational performance. |
| **Business performance** leads to organizational profits and retention of key people. | **Organizational performance** leads to improvement in organizational outcomes, such as the cost-related outcomes associated with the recruitment and retention of knowledgeable and experienced employees including (e.g. lower orientation hours, turnover, vacancy, higher recruitment and retention statistics). |

| | |
|---|---|
| **Human capital** is the knowledge, skills, and experience of employees | This is reflected in:<br>• Academic preparation<br>• Specialty certification status<br>• Hours of continuing education attended<br>• Professional experience<br>• Unit tenure<br>• Clinical specialty experience |
| **Structural capital** is organizational knowledge that exists within the organization's filing cabinets, databases, and routines | It is operationalized in:<br>• Availability of practice guidelines, care maps, and protocols<br>• Information technology for diagnostic purposes.<br>• Portable computerized devices used for acquiring evidence-based information (e.g. laptops, iPads, personal digital assistants) |
| **Human capital investment** is the investment by organizations in the development of employees' knowledge and skills through training and development initiatives | It is captured in the following strategies:<br>• Financial assistance from the organization for registered nurses to attend continuing professional development activities |
| | Paid and unpaid time off for registered nurses to learn, such as study leaves<br>Availability of replacement staff for registered nurses when away from the unit to learn<br>Availability of clinical educators or consultants to assist registered nurses with clinical decision-making and knowledge and skill development |
| ***Human capital depletion*** is the loss of employees with knowledge and skills that are of value to the organization | It is the supply and the mix of experienced employees who possess the knowledge, skills and experience to competently meet the needs of customers and organization. |

## 4. RATIONALE FOR HCM

Attempting where possible to deal with an organisation's human resources in a mature and adult way by a process of real and proactive communication (the **'communicaction' principle**).

Recognition that those employees have other strong pressures in our modern society which may require the employer's requirements to be sublimated at times (the **'flexibility' principle**);

Acceptance that most employees are rational thinking human beings with ideas and opinions of their own which can be of considerable mutual benefit to both employer and employee (the **'consultability' principle**); can be considerable.

- HCM provides for evidence-based HRM
- HCM can and should be in the interests of every stakeholder
- Human capital evaluating and reporting is a ‘must have’ capability that is crucial to sustaining long term performance.
- HCM offers the opportunity for fact-based analysis, policy formulation and execution
- The adoption of a human capital approach, with appropriate processes for measurement and evaluation, is likely to help provide valuable insights into the dynamics of employee and business performance.
- Greater transparency on how value is created through effective people management policies and practices will benefits organisations and stakeholders.

## 5. HCM AND HRM

**Differences between Personnel Management, Human Resource Management Vs Human Capital Management**

| **Personnel Management** | **Human Resource Management** | **Human Resource Management** |
|---|---|---|
| Human resources can be managed, aimed at and controlled: people can be managed. | | You can lead a horse to water, but you cannot make it drink! |
| Authoritarian, command | Temptation | Alignment |
| Top-down communication | Communication in all sorts of directions | Dialogue: interactive communication |
| Controlled information | Open communication | Dialogue |
| Standardized tasks and job descriptions | Individualized tasks and job descriptions, global indication of responsibilities | Individualized description of roles, tasks and responsibilities |
| Training aimed at function | Training aimed at multi-availability | Training aimed at persona development and fulfillment |
| Employees cost money | Employees still cost money, optimal output needs to be generated | Employees are partners, with whom a professional discussion about costs and output can be held |
| Selection on the basis of the job description | Selection on the basis of personal(esp.professional) competencies | Selection on the basis of personal competencies and values |
| Interventions on the basis of operational problems | Interventions on the basis of tactical problems | Interventions on the basis of strategic problems |
| Instrumental orientation | Functional orientation | Strategic orientation |

## 6. THE CONCEPT OF HUMAN CAPITAL ADVANTAGE AND RESOURCE - BASED STRATEGY

In order for an organization to be successful in any market, they must create value for their clients. This value can be created using a new strategy, new technology or some other ‘gimmick’ but in order to sustain this value (and the competitive advantage it brings), and organizations must develop and maintain an engaged, knowledgeable and creative workforce.

To create a workforce that provides sustainable competitive advantage and value creation, an organization must create an environment that allows their human capital to grow, much like money sitting in an interest bearing account does. This growth, expressed within people as increased knowledge, increased motivation, increased engagement, etc can be used to create competitive advantage that would be very difficult for competitors to imitate.

Out of the many theories of organizational behavior, one aligns itself well with the human capital view of people within an organization. This theory, called the Resource Based View (RBV), suggests that the method in which resources are applied within a firm can create a competitive advantage. The resource based view of firms is based on two main assumptions: resource diversity and resource immobility.

**Resource diversity** (also called resource heterogeneity) pertains to whether a firm owns a resource or capability that is also owned by numerous other competing firms, then that resource cannot provide a competitive advantage.

As an example of resource diversity, consider the following: a firm is trying to decide whether to implement a new IT product. This new product might provide a competitive advantage to the firm if no other competitors have the same functionality. If competing firms have similar functionality, then this new IT product doesn’t pass the ‘resource diversity’ test and therefore doesn’t provide a competitive advantage.

**Resource immobility** refers to a resource that is difficult to obtain by competitors because the cost of developing, acquiring or using that resource is too high.

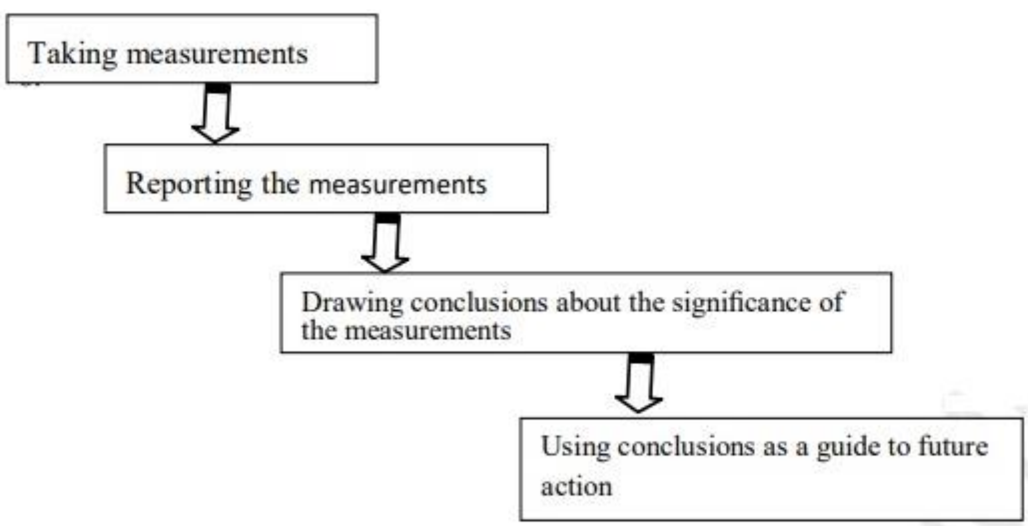
As an example of resource immobility, consider the following: a firm is trying to decide whether they should buy an ‘off-the-shelf’ inventory control system or have one built specifically for their needs. If they buy an off-the-shelf system, they will have no competitive advantage over others in the market because their competition can implement the same system. If they pay for a customized solution that provides specific functionality that only they implement, then they will have a competitive advantage, assuming the same functionality isn't available in other products.

These two assumptions can be used to determine whether an organization is able to create a sustainable competitive advantage by providing a framework for determining whether a process or technology provides a real advantage over the marketplace.

The resource based view of the firm suggests that an organization's human capital management practices can contribute significantly to sustaining competitive advantage by creating specific knowledge, skills and culture within the firm that are difficult to imitate. In other words, by creating resource diversity (increasing knowledge and skills) and/or resource immobility (a culture that people want to work in), sustainable competitive advantage can be created and maintained.

In order to create human capital resource diversity and immobility, an organization must have adequate human capital management practices, organizational processes, knowledge management practices and systems, educational opportunity (both formal and informal) and social interaction

## 7. PROCESS OF HCM



## 9. HCM DRIVERS

### Driver 1 - Leadership Practices

- **Communication:** Employees must be treated well for them to develop a feeling of attachment and loyalty towards the organization.

- **Inclusiveness:** Management ought to sit with employees on a common platform to invite suggestions and feedbacks from them.

- **Supervision:** Senior executives and management must reduce the various levels of hierarchy between them and employees. Management must interact and motivate the employees from time to time for them to give their level best.

- **Leadership:** Senior executives should support, lead and influence the workforce so that they contribute effectively towards the organization.

### Driver 2 - Employee Engagement

- **Key Responsibility Areas:** Key responsibility areas of an individual should be designed in line with his education, skills, expertise, experience and also area of interest. This way, work never becomes a burden for him.

- **Commitment:** Outstanding efforts of employees must be acknowledged for them to feel motivated and work harder even next time. Employees performing well ought to be suitably rewarded and appreciated in front of others.

- **Time:** Time management ensures that no employee is overburdened. Responsibilities must be equally shared among employees.

- **Evaluation:** Employee engagement must be evaluated from time to time by the top management.

### Driver 3 - Knowledge Accessibility

- **Information Availability:** Employees must have an easy access to all relevant information required to perform their duties. Organizations must organize various training programs (In house Trainings or Out sourced trainings) to constantly upgrade the existing skills of employees and acquaint them with new learnings.

- **Team Work:** Employees must be motivated to work in teams rather than working alone.
- **Information Sharing:** Encourage employees to share information with each other.

**Driver 4 - Workforce Optimization**

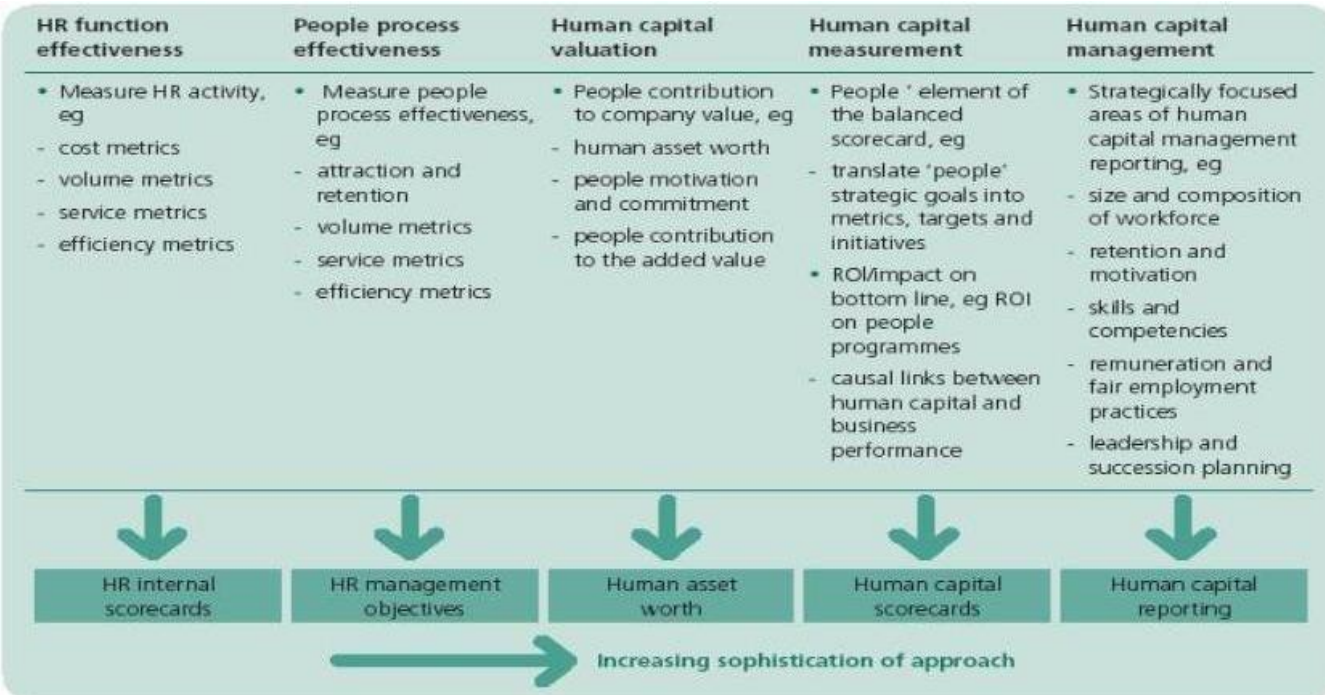
- **Work processes:** Senior management must define work processes of employees well for maximum productivity.
- **Working Conditions:** An organization needs to provide excellent working conditions to the employees to expect the best out of them.
- **Accountability:** Individuals must be held accountable for their work. Get a commitment from employees and nothing like it, if everything is in writing.
- **Hiring:** Individuals responsible for talent acquisition must ensure that they hire the right candidate for the right role. Design a strong induction program for all the newly joined employees.
- **Performance Management:** Employee's performance needs to be strongly monitored and managed.

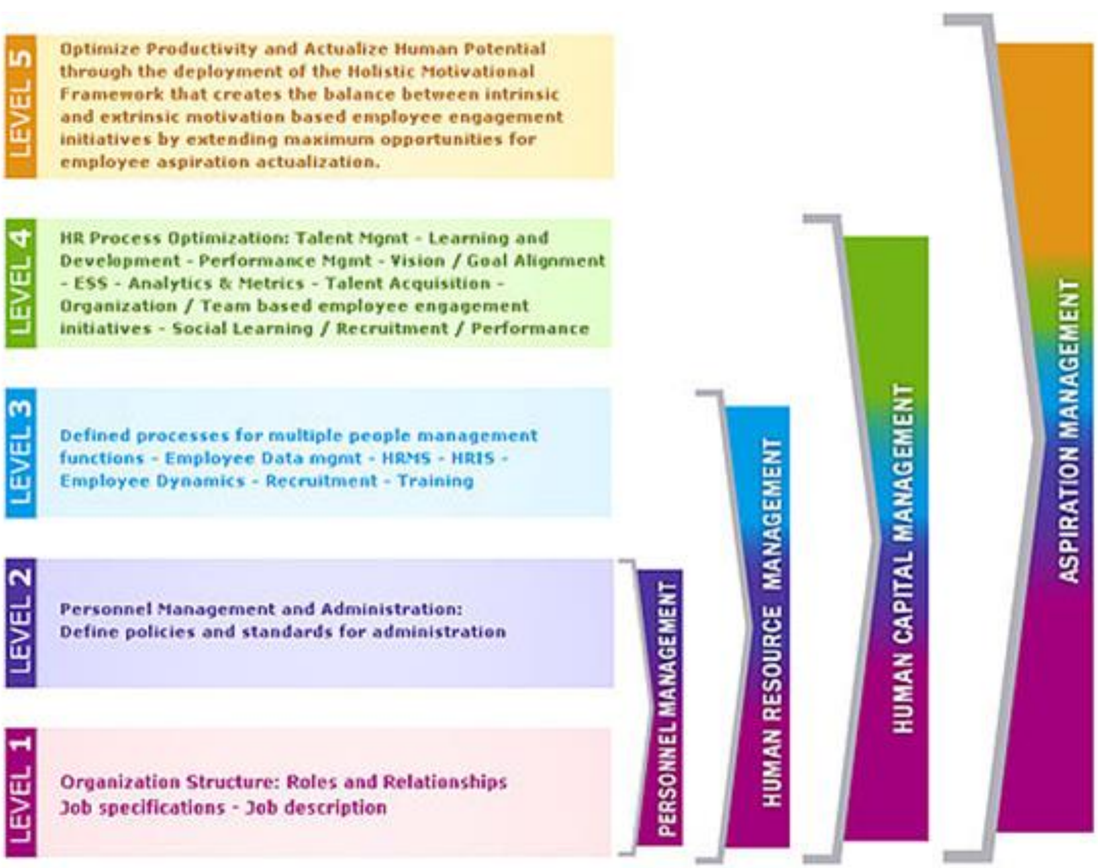
**Driver 5 - Learning Capacity**

- **Innovation:** New ideas should be welcome. Employees must be encouraged to come out with new and innovative ideas which might benefit the organization.
- **Training:** Trainings must be practical/relevant and designed to sharpen the skills of employees. Do not design training programs just for the sake of it. They must benefit the employees.
- **Career Development:** Employees must be aware of their growth plan in the organization.
- **Learnings:** New learnings should be valued by all in the organization.

## 10. HCM JOURNEY

### THE HUMAN CAPITAL MEASUREMENT JOURNEY

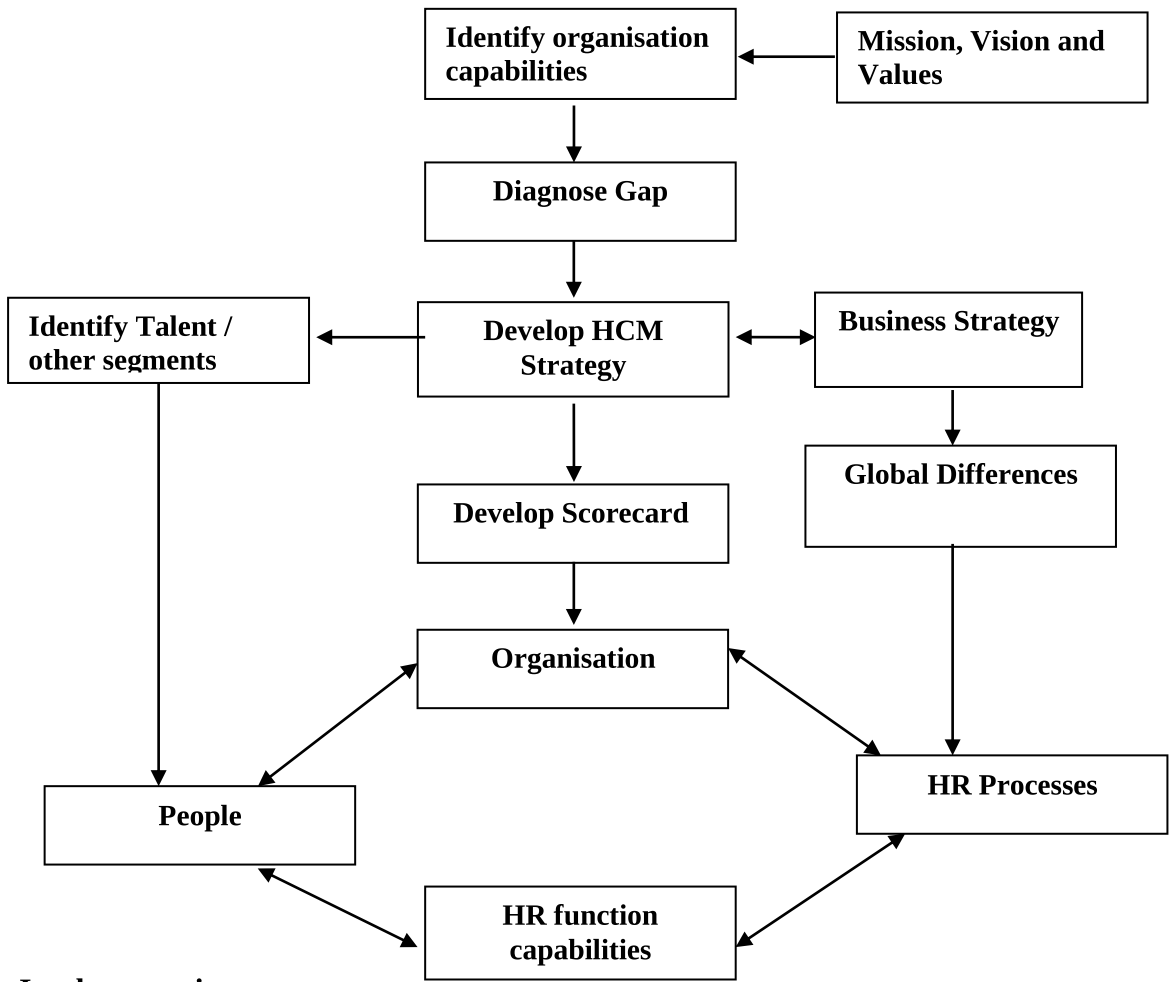



**Transition from administration to actualizing human potential**

## 11. DEVELOPING HCM

### How to start developing HCM strategy



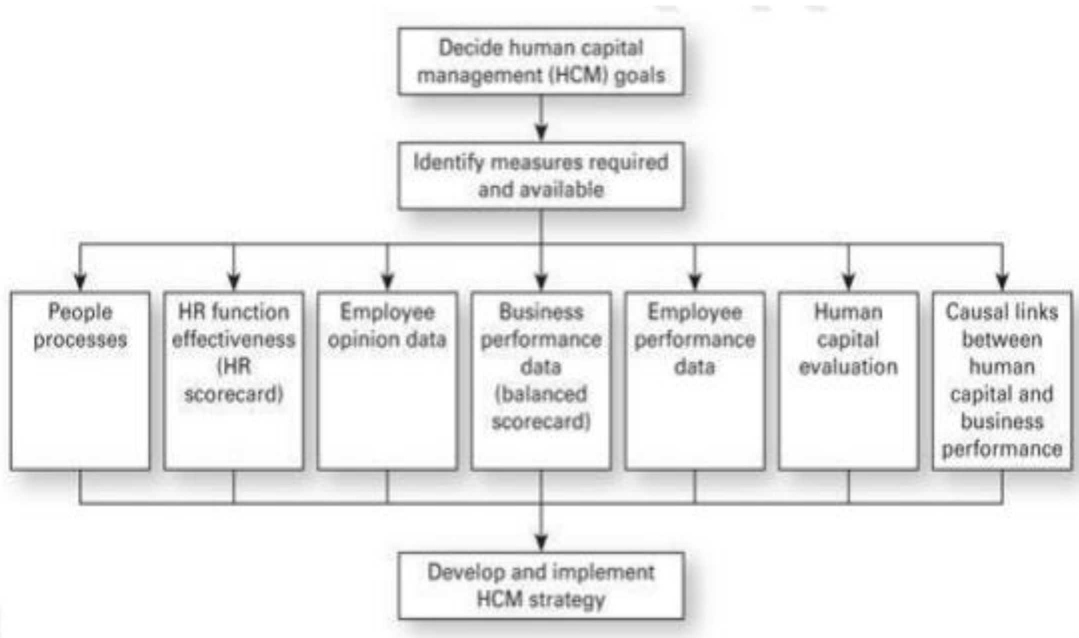

### Implementation

The development programme starts with a definition of the aims of the HCM strategy, for example, to:

1. Obtain, analyze and report on data that inform the direction of HR
2. Strategies and processes inform the development of business strategy;
3. Use measurements to prove that superior HRM strategies and processes deliver superior results;
4. Reinforce the belief that HRM strategies and processes create value through people;
5. Determine the impact of people on business results;
6. Assess the value of the organization's human capital;
7. Improve the effectiveness of HR;

8. Provide data on the performance of the organization's human capital for the operating and financial report;
9. Demonstrate that HR processes provide value for money.

The programme continues with the identification of possible measures and how they can be used. The analysis of possible measures leads to the development of a strategy for introducing and using them. It is often best to start with information that is readily available and extend the range of data as experience




**12. MEASURING HR**

| MEASURES | POSSIBLE USE: ANALYSIS LEADING TO ACTION |
|---|---|
| Workforce composition – gender, race, age, full-time, part-time | Analyze the extent of diversity<br>Assess the implications of a preponderance of employees in different age groups, eg extent of loses through retirement<br>Assess the extent to which the organization is relaying on part-time staff |
| Length of service distribution | Indicate level of success in retaining employees Indicate preponderance of long or short-serving employees<br>Enable analyses of performance of more experienced |

| | |
|---|---|
| | employees to be assessed. |
| Skills analysis/assessment – graduates, professionally/technically qualified, skilled workers | Assess skill levels against requirements<br>Indicate where steps have to be taken to deal with shortfalls |
| Attrition – employee turnover rates for different categories of management and employees | Indicate areas where steps have to be taken to increase retention rates<br>Provide a basis for assessing levels of commitment |
| Attrition – cost of | Support business case for taking steps to reduce attrition |
| Absenteeism/sickness rates | Identify problems and need for more effective attendance management policies |
| Average number of vacancies as a percentage of total workforce | Identify potential shortfall problem areas |
| Total pay roll costs (pay and benefits) | Provide data for productivity analysis |
| Compa-ratio – actual rates of pay as a percentage of policy rates | Enable control to be exercised over management of pay structure |
| Percentage of employees in different categories of contingent pay or payment-by-result schemes | Demonstrate the extent to which the organization believes that pay should be related to contribution |
| Total pay review increases for different categories of employees as a percentage of pay | Compare actual with budgeted payroll increase costs Benchmark pay increases |
| Average bonuses or contingent pay awards as a % of base pay for different categories of managers and employees | Analyze cost of contingent pay Compare actual and budgeted increases Benchmark increases |

| | |
|---|---|
| Outcome of equal pay reviews | Reveal pay gap between male and female employees |

| | |
|---|---|
| Personal development plans completed as a percentage of employees | Indicate level of learning and development activity |
| Training hours per employee | Indicate actual amount of training activity (note that this does not reveal the quality of training achieved or its impact) |
| Percentage of managers taking part in formal management development programmes | Indicate level of learning and development activity |
| Internal promotion rate (% of promotions filled from within) | Indicate extent to which talent management programmes are successful |
| Succession planning coverage (% of managerial jobs for which successors have been identified) | Indicate extent to which talent management programmes are successful |
| Percentage of employees taking part in formal performance reviews | Indicate level of performance management activity |
| Distribution of performance ratings by category of staff and department | Indicate inconsistencies, questionable distributions and trends in assessments |
| Accident severity and frequency rates | Access health and safety programmes |
| Cost savings/revenue increases resulting from employee suggestion schemes | Measure the value created by employees |

SCHOOL OF MANAGEMENT STUDIES

# UNIT – II – Human Capital Management – SBAA7018

# UNIT –II: HUMAN CAPITAL DATA

## Human Capital

**Human capital** is an intangible asset or quality not listed on a company's balance sheet. It can be classified as the economic value of a worker's experience and skills. This includes assets like education, training, intelligence, skills, health, and other things employers value such as loyalty and punctuality.

The concept of human capital recognizes that not all labor is equal. But employers can improve the quality of that capital by investing in employees—the education, experience, and abilities of employees all have economic value for employers and for the economy as a whole.

## Importance of Human Capital

**Human capital is important** because it is perceived to increase productivity and thus profitability. So the more a company invests in its employees (i.e., in their education and training), the more productive and profitable it could be.

## Calculating Human Capital

Since human capital is based on the investment of employee skills and knowledge through education, these investments in human capital can be easily calculated. HR managers can calculate the total profits before and after any investments are made. Any return on investment (ROI) of human capital can be calculated by dividing the company's total profits by its overall investments in human capital.

– For example, if Company X invests $2 million into its human capital and has a total profit of $15 million, managers can compare the ROI of its human capital Year-Over-Year (YOY) in order to track how profit is improving and whether it has a relationship to the human capital investments.

## Human Capital Data

HR analytics is the process of collecting and analyzing **Human Resource** (HR) **data** in order to improve an organization's workforce performance. The process can also be referred to as talent analytics, people analytics, or even workforce analytics.

- High-quality and high-impact decisions need to be based on reliable and relevant facts, the 'right facts‘.
- Gathering the right facts entails looking beyond what people 'say', and considering what they actually 'do'. It's essential to look at the actual behaviours of employees over time to inform human capital decisions.

There are two basic **types of employee data:**

- **Perceptual** – attitudinal or qualitative information, typically collected via interviews or surveys
- **Archival** – based on historical records; this includes employee history, financial or operational data, and customer records.

**Three broad categories of data** can be used for HCM:

1. **HR practices and workforce data**
2. **Performance data**
3. **External data**

**1. HR and workforce data:**

**HR and workforce data** is the 'must have' for human capital reporting. Compiling and analyzing this data will enable the organization to understand the characteristics of its workforce measure the effectiveness of its people policies and assess the value of its human capital assets.

**HR Data sources:** HRIS payroll systems, Ancillary systems, Employee surveys.

Data elements: HRIS and payroll data on the work force: demographics; status; job history; availability; compensation; mobility; organization and management.

**Complementary workforce data Sources:**

Performance management; training and development; skills and competencies; education; pre-employment; succession planning Perceptual data: employee survey; exit interviews; executive interviews HR Practices and Workforce Data.

**2. Performance data:**

Performance Data means any rating, ranking, quotation, discussion or analysis regarding rate of return, yield, volatility or other measurement or description of the investment performance of a segregated fund.

To measure business performance, need to track relevant business metrics, also known as key performance indicators, display a measurable value and shows the progress of the business goals.

Measuring performance is a vital part of monitoring the growth and progress of any business. It entails measuring the actual performance of a business against intended goals. Regularly checking the business performance protects the business against any financial or organizational problems. It helps businesses in lowering process cost and improving productivity and mission effectiveness.

**Performance data is** a mixture of financial, operational and customer information. By connecting workforce information to performance outcomes, able to assess the impact of your HCM practices on the business and provide a basis for making HC investment decisions.

**Data elements**: there are three categories of performance outcomes to consider:

**Financial data:** revenues, net income, economic profit, profit margins.

**Operational data:** calls abandoned (call centers), customer waiting times (retail), new accounts opened (financial services), Customer care.

**Customer data:** customer satisfaction, customer retention, customer service ratings, Performance Data.

**3. External data:**

**External data** can provide valuable insights to help determine how successful the policies and practices are likely to be in the face of competitive market conditions.

**Labor market data,** such as local unemployment rates and/or industry salaries, will influence both the availability of skills and the ability to buy necessary talent.

**Industry or market data**, such as market share or industry volatility, will allow controlling for external influences that might mask the impact of human capital management practices.

External data encompass national statistics, labor force surveys, industry reports or compensation data. It's important to distinguish between the use of external data as inputs to the analysis and benchmarking the outcomes of the analysis across organization's external data.

## TYPES OF DATA

The main types of data as described below are business performance data, corporate social responsibility data, customer data, customer data, customer data, demographic data, development data, diversity data, employee opinion data and HR data.

### Business Performance Data

The data that will provide information on business performance will vary from organization to organization. Most organizations commonly collect data on sales or customer satisfaction. Other forms of data that might be used to assess business performance include productivity; incidences of cross-selling, brand recognition, customer loyalty, and in the public sector extent to which targets set by government are met.

The Nationwide Building Society, for example, conducts an extensive member survey that informs its business simulations to predict the value of a particular course of action.

### Corporate social responsibility (CSR) data

CSR data is growing in importance to organizations. CSR data is demanded more and more by customers who want higher ethical standards from business in the way in which organizations treat labour, particularly in the developing world, and their record on environmental issues.

For Example: CSR data can be correlated against customer data to see if improving the organization's record is likely to result in increased sales.

### Customer data

By collecting data on customer opinions and perceptions organizations can become more informed about the kind of behaviours they need to encourage in their employees, the type of sales techniques that will give most value and the products and services that customers are likely to demand in the future. Standard Chartered Bank uses customer satisfaction as one of its business outcomes and both Norwich Union and Pfizer mentioned that they specifically track customer activity and feed this into their human capital information processes.

**Demographic data**

This includes data on age, length of service, ethnicity and male to female ratios. At the Ministry of Defence, for example, managers began to express concern that so many senior members of staff were over 45. However, when they compared their profile against the demographic profile nationally and future trends, they began to understand that they are likely to be increasingly dependent on older workers and so actively engage in both recruiting and developing older workers.

**Development data**

The competencies and skills of the workforce are often presented as a basic component of human capital and yet not everyone interviewed collected data on training and development. A key element of training data for many was about assessing the gaps and identifying the training needs of individuals to be moved into key positions. At Standard Chartered Bank a key emphasis of human capital is about growing its talent pipeline by both attracting and retaining talent and accelerating the progression and development of the best talent. For Standard Chartered Band, this is a key source of data to inform human capital evaluation (CIPD,2006a)

**Diversity data**

Some organizations are required to collect diversity data, and this is considered good practice in order to avoid accusations of discrimination. Most of the organizations interviewed collected diversity data under the umbrella of democratic data, collecting information on age, sex, race, and disability. For example, Standard Chartered Bank acquires data on equality of access to development opportunities.

**Employee opinion data**

Employee opinion data is the most common way that organisations assess levels of satisfaction, engagement, commitment, and Loyalty, some examples of the types of employee opinion data collected are :

1. Work force climate surveys
2. Leadership surveys
3. 360-degree appraisal feedback
4. Performance appraisal feedback
5. Employees' engagement surveys
6. Culture survey
7. Attitude survey

For Standard Chartered Bank this is particularly a key is issue. The bank as been measuring employee engagement for some time and now achieves a 97 per cent response rate from among 40,000 people in 56 countries.

**HR data**

The kinds of HR data collected and used for human capital evaluation and reporting purposes included.

1. Monitoring operating costs per head,
2. Revenue/profit per employee,
3. Monitoring absence rates,
4. Permanent to temporary staff ratio,
5. Average salary,
6. Reward differentiation based on performance contribution and potential,
7. Recruitment figures: length of time to recruit, number of applicants for each job, skill level of applicants, etc;
8. Ratio of internal to external recruitment,
9. Health and safety data,
10. Data from exist interviews,
11. Performance management or appraisal data,
12. Employee turnover and retention.

The Royal Bank of Scotland looks at the geographical distribution of its employees, monitoring external factors that have an impact on turnover (CIPD,2006a)

**A GUIDE TO DATA MANAGEMENT**

If an organization cannot inform the outside world accurately how many employees it has, it cannot expect any reliance or trust to be placed in any data it generates. The basic steps for the generation of good quality human capital data are as follows:

1. Start with basic data and analysis restricted to identifying trends and patterns and what they mean.
2. Demonstrate its integrity ensuring that it is accurate, reliable and of value.
3. Progress higher levels of data collection, demonstrate the value particular processes and enable managers to see their actions can impact on performance.
4. Identify the drivers of business performance.

The aim of the data collection process should be to create a virtuous cycle where improved people management results from meaning full data provided to line managers that enables thoughtful inside and credibility for recommended management actions. Overtime, this will create a new environment in which the HR function is a provider of knowledge and an enabler of good people management leading to improved business performance.

## MEASURING HUMAN CAPITAL

HCM is concerned with proving the value of people - assessing the impact of HRM practices and the contribution of people to bottom- line performance. Methods of measuring impact and contribution based upon human capital data have therefore to be developed.

### Measurement and Data

Measurement means a way of analysing and interpreting data that already exists.

## CLASSIFICATION OF MEASURES

The three basic classifications of measures as identified by Kearns (2005) are:

1. Activity measures - These simply record the level of activity such as the number of training day per employee, and they do not assess the quality of the activity.
2. Performance measures -These assess performance improvements in such terms as contribution, productivity and profitability.
3. Added value measures - These assess the extent to which the measured value of the contribution of people exceeds the cost of generating it. ROI (Return On Investment) or

return on capital employed measures can be broadly included in this category. These measures are the most revealing followed by the performance measures and are often the only once available but they do not give any identification of the outcomes of the activity.

## APPROACHES TO MEASUREMENT

### Centrica's Eight Key Measures

**Centrica (CIPD, 2006a)** differs from others by deliberately starting the organization's journey towards HC evaluation and reporting with an attempt to identify the measures that would be of value to its business model. This was done by conducting a high-level review of its business and people strategy. Decisions were then made about what would need to be measured to monitor progress.

As a result Centrica identified eight key measures, four of which are financial while the other four are more traditionally people focused:

1. Human capital return on investment.
2. Training return on investment.
3. Cost of absence.
4. Costs of leavers (resignations).
5. Employee engagement.
6. Annual pay audits.
7. Employee share scheme/benefits.
8. Diversity and inclusion.

Only when it had established the measures did Centrica set out to identify what data would be required and from which sources. The approach has therefore been very much driven by business strategy, people issues and measurement requirements rather than the availability of data. A common framework of measurement is used for both internal and external reporting processes. This allows the company to have a full set of measures to drive improvement and change within the business while allowing a subset of the information to be published externally to meet business reporting requirements.

### Standard Chartered Bank's Six Key measures

Standard Chartered Bank also started at the strategic level when it came to designing measures (CIPD, 2006a). The organization's starting point for the development of metrics was to identify people levers for the achievement of business strategy and then to formulate these people levers into a series of questions designed to inform progress against them. The bank has deliberately avoided reporting on data that is readily available but does not address the strategic business questions identified. The intention is to evolve the bank's scorecard over time as currently there are some measures it would like to include but cannot because their reliability cannot be guaranteed.

The Accounting for People Task force identified six key measures that seem to be used most commonly by companies.

These are:

1. The profile of the workforce
2. Workforce turnover
3. Retention rates
4. Workforce absenteeism
5. Performance and productivity
6. Engagement

**Chartered Management Institute’s three-tier approach measure**

The Chartered Management Institute research published in 2006 proposes a three-tier approach to measures, involving:

1. Basic measures include quantitative data and employee profile statistics and are crucial for understanding the basic makeup of the workforce but not sufficient to drive action to assess human capital in relation to strategic goals.
2. Standard comparable analytic measures include comparable quantitative data indicating the extent of workforce contribution to performance and are defined to provide useful actionable information. Such measures may be predefined and applicable to all types of organizations.
3. Strategic HCM measures include measures of strategic alignment which cannot be predetermined and have to be developed for each organization's particular strategic context.

A review of the available case studies on human capital measurement revealed another five measures that are also popular:

1. Added value per employee
2. Profit or revenue per employee
3. Reward strategy
4. Leadership and succession planning/talent management
5. The cost and/or effectiveness of training
6. The link to bottom-line indicators

A vital benefit of HR metrics and analytics is Employee Retention. Another desirable feature of human capital measures is that it should be possible to link them to bottom-line indicators. For those whose starting point for human capital evaluation and reporting is at the strategic level the link is implicit. For others who choose to take a more pragmatic approach the process of linking to the bottom line tends to be more evolutionary.

Therefore, employee data helps recruiters to recognize a pattern of high performing employees and accordingly modify their employee hiring and retention strategy. Finally creating better work environments and maximize employee productivity that improves Return on Investments (ROI).

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# UNIT – III – Human Capital Management – SBAA7018

# UNIT 3 – MEASURING HUMAN CAPITAL

## 1.1 Measuring Human Capital

HCM is concerned with proving the value of people - assessing the impact of HRM practices and the contribution of people to bottom- line performance. Methods of measuring impact and contribution based upon human capital data have therefore to be developed.

As Human capital refers to the knowledge, skills, experiences, other attributes, and commitment invested in the organization, these are what organization should focus on to improve its human capital's ROI.

## 1.2 Measurement Issues

Research by the Chartered Management Institute in 2006 (Scott-Jackson et al, 2006) found that 86 percent of directors agreed that they value their employees as key assets and 77 percent believe that their workforce development is aligned to business goals. However, only 68 percent measure the contribution made by employees.

## 1.3 Measurement and data

Measurement can be regarded as a way of analyzing and interpreting data that already exists. The data may vary considerably depending on the measure – the same things may not have been measured to give absence data. This gives rise to problems when comparing across different parts of the organization or against the other organizations. Measures are therefore important in determining how data is collected and also how it is used.

## 2.1. MEASURING HUMAN CAPITAL

**External benchmarking:** is typically used to compare HR and management practices across

companies, either within industries or against recognized „high performance companies.

**Internal benchmarking:** can provide insights into how effectively the workforce is managed and deployed

## 2.2. MEASUREMENT ISSUES

**2.2.1. Data issues:** The data needed by the income-based approach are currently either not available for some countries or not in a form suitable for direct use

- First, the data are classified by different characteristics of workers vary significantly across countries. Data may refer to different earnings concepts (hourly and weekly earnings in most cases, annual and monthly earnings for some countries) and may include different elements of the remuneration packages of workers. In some cases, data on earnings refer only to the main job while in other countries they may also cover secondary jobs and other remunerated activities. Finally, earnings data for different countries typically refer to different categories of educational attainment, and may be collected as either point estimates or in the form of earnings brackets.
- Second, despite the great progress accomplished in collecting harmonised educational statistics, there remain issues with the quality of data on school enrolment and graduation rates, as definitions and classifications are not always comparable across countries, due for instance to differences in educational systems and in ways of counting students (e.g. students who repeat the year, students who graduate for a second time, etc.).
- Third, human capital estimates would ideally require data on survival rates broken down by education. While some national estimates exist, and they highlight large mortality differentials by socio-economic characteristics, these breakdowns are not available for all countries and they are rarely comparable across countries.

**2.2.2. Methodological difficulties:** Currently, most human capital estimate srelyonthe assumption that cross- section learnings are good predictors of future earnings.

Likewise, it would be important to separate wage premium due to educational attainment from those due to on-the-job training and other firms‟ characteristics, as failure to do so may lead to overstate the educational contribution to human capital. With respect to labor (e.g. employment rates and earnings), it is also important to separate business cycles effects that distort comparisons (e.g. by depressing earnings or employment rates for different categories of workers during a recession).

A further difficulty when applying the lifetime income approach relates to the choice of some of the key parameters required by the method, such as the expected real growth of labor income in the future, the discount rate and the price deflators used for temporal and

country- comparisons. While assumptions on these parameters are currently left to the discretion of researchers, their choice would ideally require further theoretical and empirical backup.

Another challenge for developing monetary measures of human capital is represented by the large discrepancies between estimates of human capital by the income-based and the costs- based approaches. These discrepancies should be better understood and reconciled. One way to address this challenge would be to apply the two approaches simultaneously, which would offer an opportunity to identify the main factors accounting for the differences and to reconcile the two methods.

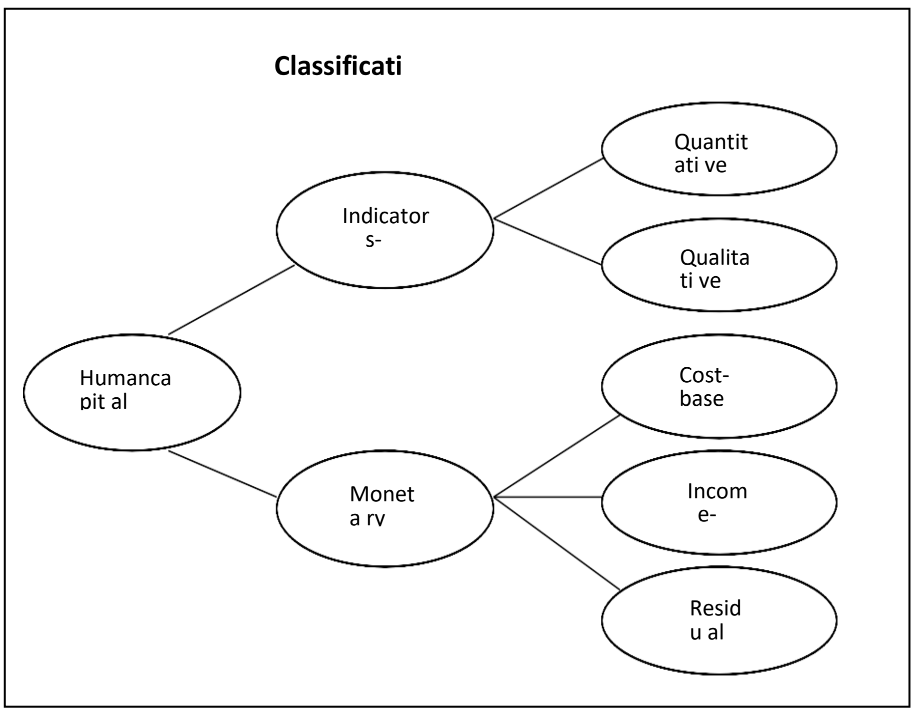
## 2.3. CLASSIFICATION OF MEASURES

### 2.3.1. **Indicators** that are often used as single proxies for human capital include

A single physical indicator as a proxy for human capital, though simple, cannot on its own adequately measure the various dimensions of skills and competences (OECD,2001),and sometimes even poorly specifies the relationship between education and the stock of human capital.

a. **Dashboard type indicators** rely on a number of statistics that, though rich in information, lack a common metric, as a result, cannot be aggregated into an overall measure. This makes them less suitable for comprehensive comparisons of human capital across countries and over time. Further, indicator sets do not allow the comparison of the relative importance of different types of capital, i.e. produced, natural and human capitals.

2.3.2. **Monetary measures** combine many different aspects that contribute to human capital in a single metric. For example, estimates by the income-based approach allow comparing the importance of demography (the age and gender structure of the population), educational factors (the number of people with different levels of educational attainment, enrolment rates) and labor market factors (employment probabilities and earnings). Similarly, human capital estimates by the cost-based approach allow comparing the relative importance of the expenditures incurred by different sectors (public administration, households, and firms) and of market and nonmarket inputs.



a. **The cost-based approach** to measuring human capital is similar to the perpetual inventory method that is conventionally applied to measuring fixed capital, i.e. the stock of human capital is measured as the accumulated value of all the expenditures occurring to its formation, considered as human capital investment.

The cost-based approach is relatively easy to apply, at least when limited to market inputs, because of the ready availability of data on both public and private expenditures in formal education. The approach can also be extended to account for expenditures undertaken for on- the- job training.

Challenges are also involved with the choice of the price indices used to deflate historical expenditures in order to construct a stock value based on the perpetual inventory method. Moreover, the depreciation rate, which matters a great deal when constructing the stock of human capital based on this method, is usually set arbitrarily in practice.

b. **The income approach** measures human capital as the present value of the expected future labor incomes that could be generated over the lifetime of the people currently working. By focusing on the earning power of each person, this approach values human capital at market prices, under the assumption that market prices are good signals of the value of human capital services that result from the interaction of demand and supply in the labor market. However, this approach is not immune from drawbacks. For instance, to calculate expected future earnings, some subjective judgments are necessarily made about the discount rate, real income growth rate, etc. There are also reasons to argue that labor market does not always function in a perfect way, implying that the wage rate typically used as a proxy for earning power is not always equal to the marginal value of a particular type of human capital.

c. **The residual approach** can be applied to a large number of countries based on less-demanding statistical information, it has limits. First, by taking as its starting point the discounted value of future consumption flows, it obviously ignores the non market benefits of various capital stocks. Second, this measure is affected by measurement errors in all the terms entering the accounting identities, resulting in potential biases in the final estimates of human capital. Third, the approach cannot explain what drives the observed change of human capital overtime, thus offering less valuable information for policy intervention.

## 2.4. DEVELOPING MEASURES - HUMAN CAPITAL MEASUREMENT MODELS

### 2.4.1. HUMAN RESOURCE ACCOUNTING

In 1965, Roger Hermanson proposed a method for determining the value of a human being to an organization. This, along with work at the Institute for Social Research at the University of Michigan, became the foundation for what was then called human resources accounting (HRA). To put a value on a person within a business organization, one has to be able to calculate the variability of a person from four current perspectives and potentialities:

1. Productivity
2. Promotability
3. Transferability
4. Retainability

The human resources value depends on the value of each of the four factors during a fiscal year. The likelihood of an individual being in any of those positions or service states, as they are called is subject to the law of probability

### 2.4.2. 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.

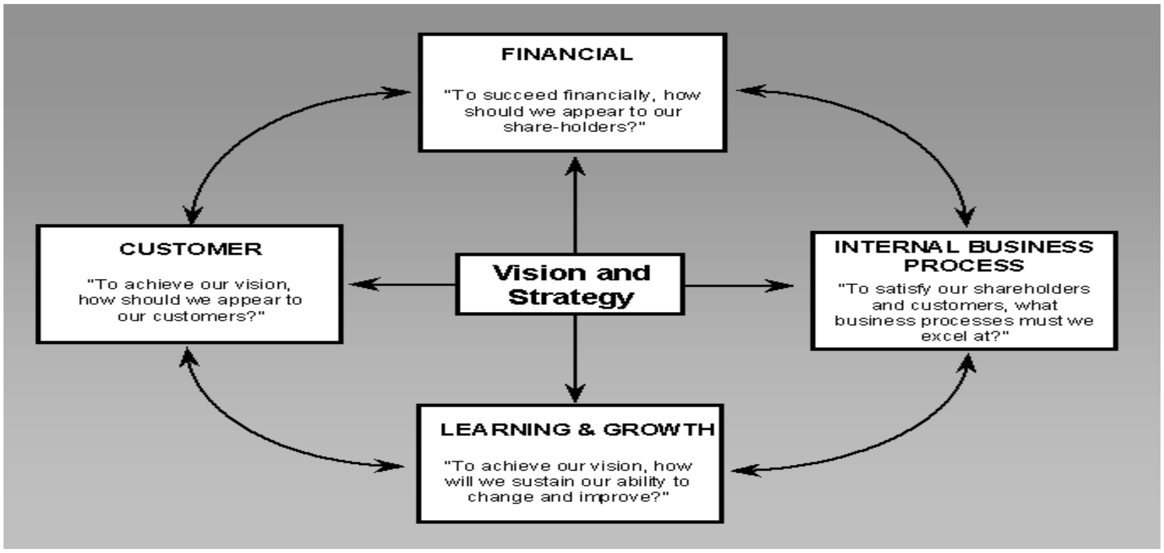
The scorecard originally had four elements:

1. Financial,
2. Customer,
3. Internal business process,
4. Learning and growth.

One of the main benefits of the scorecard approach is that it provides a simple communication tool for internal and external stakeholders.

The need to create clear alignment between HR's own functional organization, the supporting HR systems and employee behaviors – This suggests a strong link between HR activity and the development of a firm's human capital.

The idea of an HR scorecard has reinforced the need for business measurement of HR activities, and it is also a relatively popular tool which many HR functions use to assess their own effectiveness.




Balanced scorecard was originated by Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance.

**The financial perspective**

Focuses on financial performances of an organization. It normally covers the revenue and profit targets of commercial companies as well as the budget and cost-saving targets of not-for-profit organisations. The financial health of an organisation is a critical perspective for managers to track. It is important to note that financial performance is usually the result of good performance in the other three scorecard perspectives.

**The customer perspective**

Focuses on performance targets as they relate to customers and the market. It usually covers customer growth and service targets as well as market share and branding objectives. Typical measures and KPIs in this perspective include customer satisfaction, service levels, net promoter scores, market share and brand awareness.

### The internal process perspective

Focuses on internal operational goals and covers objectives as they relate to the key processes necessary to deliver the customer objectives. Here, companies outline the internal business processes goals and the things the organization has to do really well internally in order to push performance. Typical example measures and KPIs include process improvements, quality optimization and capacity utilization.

### The learning and growth perspective

Focuses on the intangible drivers of future and is often broken down into the following components:

- Human Capital (skills, talent, and knowledge)
- Information Capital (databases, information systems, networks, and technology infrastructure)
- Organization Capital (culture, leadership, employee alignment, teamwork and knowledge management).

Typical example measures and KPIs include staff engagement, skills assessment, performance management scores and corporate culture audits.

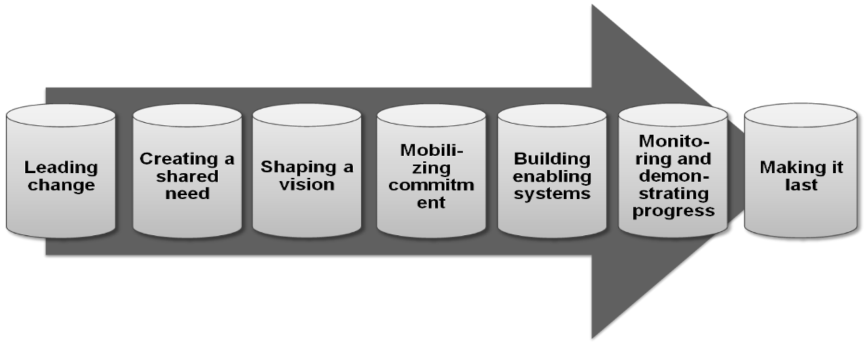
## 2.4.3. HR SCORECARD

It takes Balanced Scorecard to the next level seeks to strengthen a weak aspect of the Balanced Scorecard approach - the question of how best to integrate HR's role into the company's measurement of business performance.

Benefits of HR Scorecard according to Becker, Huselid and Ulrich:

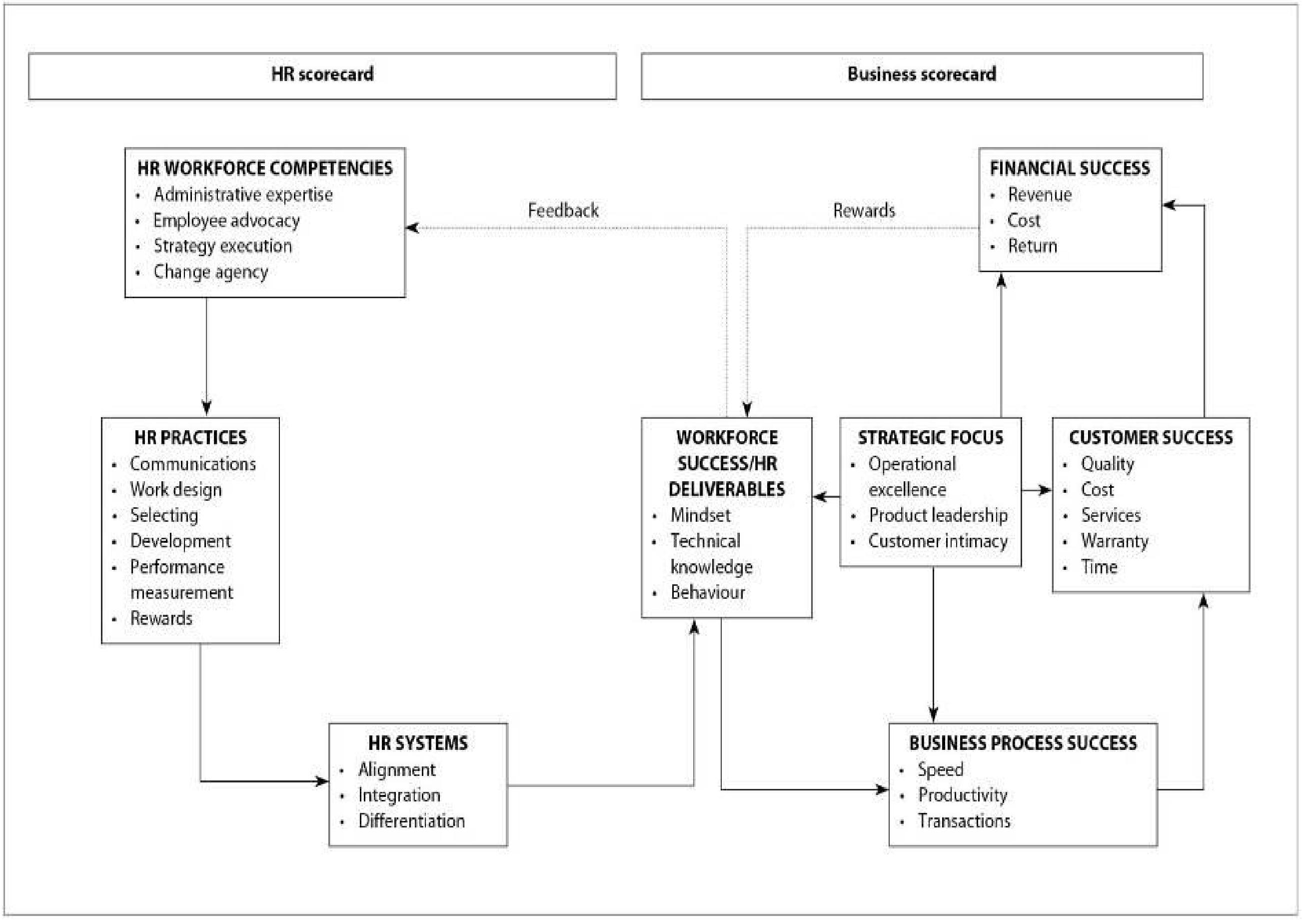
- ✓ Reinforces distinction between HR “do-ables” and “deliverables”
- ✓ Enables to control costs and create value
- ✓ Measures leading indicators
- ✓ Assesses HR's contribution to strategy implementation and the “bottom line”
- ✓ Lets HR professionals effectively manage their strategic responsibilities
- ✓ It encourages flexibility and change

**Steps to implementing an HR scorecard**




**Four major dimensions in the HR Scorecard:**

- Key human resource deliverables that will leverage HR's role in company's overall strategy (e.g. the extent to which employees' behaviours change in ways that make a real difference to the business)
- High-performance work system (e.g. the key HR policies and practices that must be in place and implemented well to achieve the organization's strategy)
- Extent to which that system is aligned with the company strategy (e.g. the extent to which the HR practices that you deploy are internally consistent and not working at cross purposes and are really the right ones to drive organizational strategy)
- Efficiency with which the deliverables are generated (e.g. the extent to which you are efficient in delivering HR services to the organization).




**Linking the HR scorecard to the Business Scorecard**

**Success of HR scorecard**

- Investment in HR systems
- Hiring HR employees with the required competencies
- Communicating the Scorecard throughout the organisation
- Weaving the HR results into reward and recognition systems
- Drive the workforce behaviours with substantial impact on business process success that leads to customer success and ultimately result in financial success
- Companies that are successful operationally and with their customers should also experience company financial success
- Continuous feedback loop.

### 2.4.4. WORKFORCE SCORECARD

- ❖ It is not the activity that counts, but the impact of the activity on organizational outcomes that meant the most to companies
- ❖ Example - it is not the number of days of training that were provided, but the impact the training had on the individual and the organisation
- ❖ Companies needed a business strategy, a strategy for the HR function and a workforce strategy
- ❖ These strategies are operationalised in the Balanced Scorecard, the HR Scorecard and the Workforce Scorecard
- ❖ Workforce Scorecard is a crucial lever in the strategy execution process within companies

**Composition of the Workforce scorecard**

| HR Scorecard ← | Workforce Scorecard ← | | Balanced Scorecard |
|---|---|---|---|
| | | **Customer Success**<br>What specific customer desires and expectations must be satisfied? | **Financial Success**<br>What specific financial commitments must be met? |
| | **Leadership and Workforce Behaviours**<br>Are the leadership team and workforce consistently behaving in a way that will lead to achieving our strategic objectives? | **Workforce Success**<br>Has the workforce accomplished the key strategic objectives for the business? | **Operational Success**<br>What specific internal operational processes must be optimized? |
| **HR SYSTEMS**<br>• Align<br>• Integrate<br>• Differentiate | **Workforce Mindset and Culture**<br>Does the workforce understand our strategy and embrace it, and do we have the culture we need to support strategy execution? | **Workforce Competencies**<br>Does the workforce, especially in the key or 'A' positions, have the skills it needs to execute our strategy? | |
| **HR Workforce Competencies**<br>• Strategic partner<br>• Change agent<br>• Employee advocate<br>• Administrative expert | **HR Practices**<br>• Work design<br>• Staffing<br>• Development<br>• Performance management<br>• Rewards<br>• Communication | | |

**Workforce scorecard starts with the workforce investments, which should help execute strategy through its components:**

- ➢ workforce mind-set and culture
- ➢ workforce competencies
- ➢ workforce behaviours

These components become the link between: strategy, HR investments, the workforce which in turn leads to Workforce Success

a. **Workforce success:** most important dimension of the Workforce Scorecard → it captures the "bottom line" of the workforce performance.

- the measures that reflect how well the workforce has contributed to the execution of the company's strategy (number and quality of customer complaints, the number of new distributors and the response time for customer inquiries)

b. **Workforce mindset and culture**

- Does the workforce understand the company strategy? Does the culture within the organisation support the execution of this strategy?
- Organizations create norms and expectations the workforce needs to understand
- this creates the culture of the organization shaping employee behaviour
- Culture can be measured and assessed in terms of impact on the company's strategic success (the extent to which the company strategy is clearly and widely understood, the extent to which the average employee can describe the company's HR strategy, extent to which employees take pride in working for the company).

c. **Leadership and workforce behaviours**

- Are the employees consistently behaving in a way that will lead to the achievement of the company's strategic objectives?
- Leaders and employees must behave in ways that are consistent with the strategy for it to be executed
- Behaviours can be defined and measured to ensure that leaders and employees do what the strategy suggests needs to be done (effectiveness in dealing with poor performers, percent of employees making suggestions, percent retention of core competency workforces).

d. **Workforce Competency (What measures should be adopted?)**

- Managers can be held accountable for their words and actions relative to people and the workforce success, the mindset, capabilities and behaviours they create
- Managers who do not create workforce success can be identified, targeted and developed or moved out
- HR professionals and HR management system lay the foundation for building the workforce into a strategic asset BUT the responsibility for workforce success increasingly falls to line managers who perform most of the workforce management activities in any company

### 2.4.5. HUMAN CAPITAL MONITOR

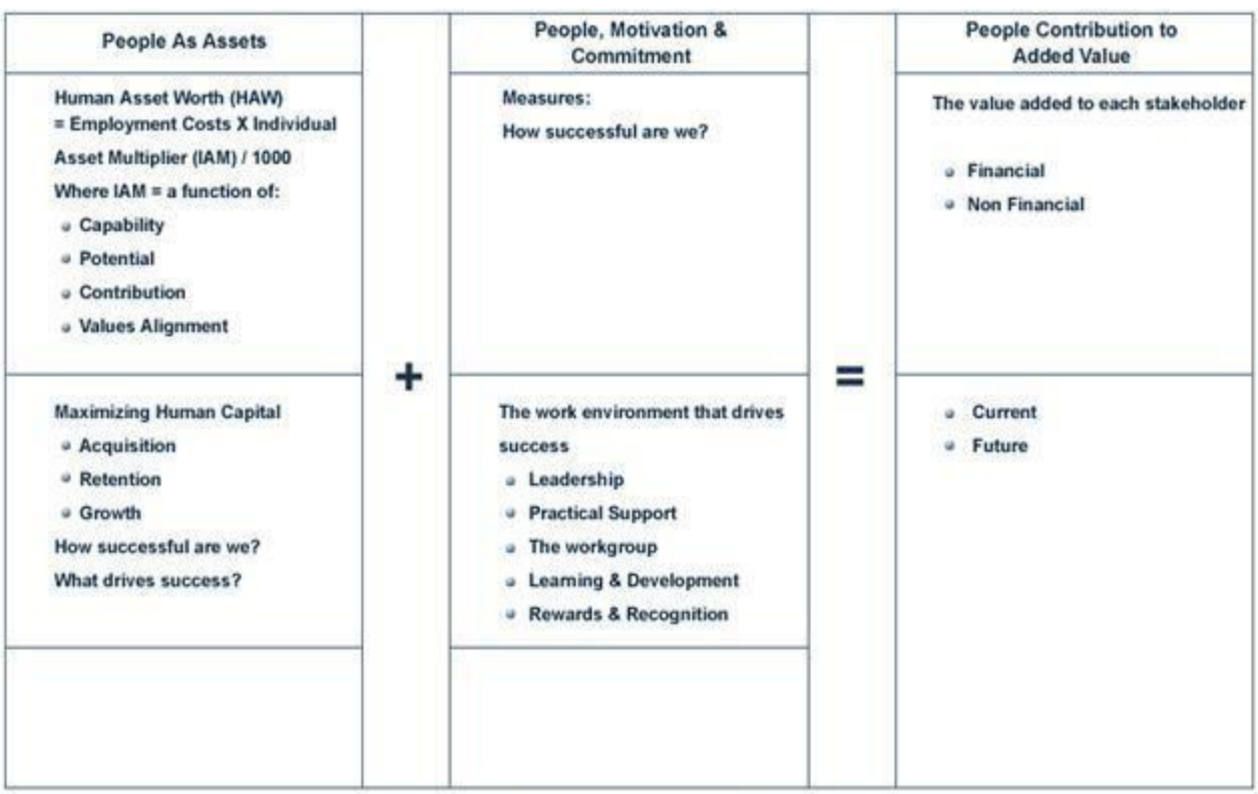
Andrew Mayo, a member of the CIPD's steering group, has sought to identify the human value of the enterprise or 'human asset worth‟. He emphasizes that people should be viewed as an asset rather than a cost. The main challenges are:

- ❖ 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 human asset worth is defined as being equal to 'employment cost x individual asset multiplier (IAM)/1,000'.

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

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




The Human Capital Monitor

The Human Capital Monitor

- It is to identify the Human Value of the Enterprise or Human Asset Worth‟: Employment Cost × Individual Asset Multiplier.

- Individual asset multiplier: 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.
- Absolute figure isn't important: what does matter is to consider whether human capital is sufficient, increasing, or decreasing, and highlights issues to address.
- The most critical indicator for the value of human capital is the level of expertise possessed under the headings of identified organizational core competencies.

### 2.4.6. ORGANISATIONAL PERFORMANCE MODEL

Mercer HR Consulting developed a model that links HCM to organizational performance and, ultimately, shareholder value

Human Capital Strategy consists of six interconnected factors (MERCER):

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.

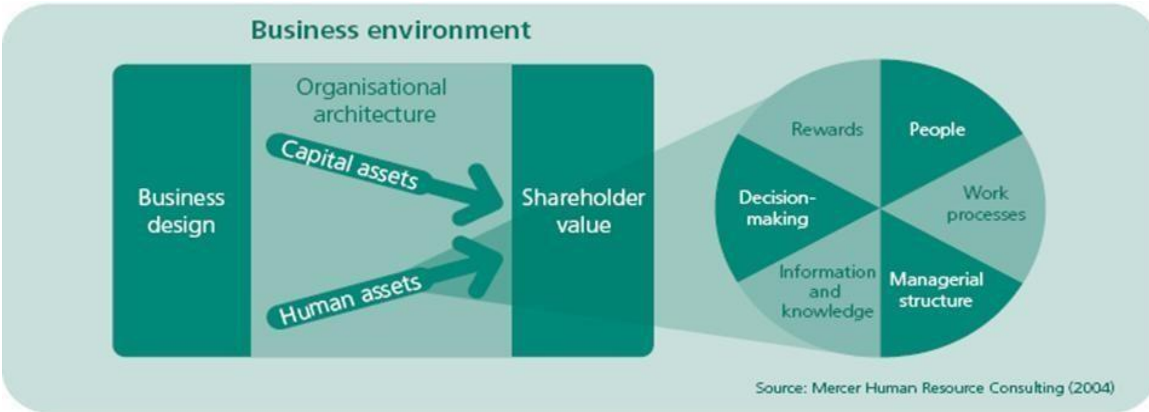
i. Work Processes – how work gets done; the degree of teamwork and interdependence among organizational units; and the role of technology.

ii. Managerial Structure – the degree of employee discretion, management direction and control; spans of control, performance management and work procedures

iii. Information and Knowledge – how information is shared and exchanged among employees and with suppliers and customers through formal or informal means

iv. Decision Making – how important decisions are made and who makes them; the degree of decentralization, participation and timeliness of decisions

v. 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'.




**ORGANISATIONAL PERFORMANCE MODEL**

### 2.4.7. HUMAN CAPITAL INDEX

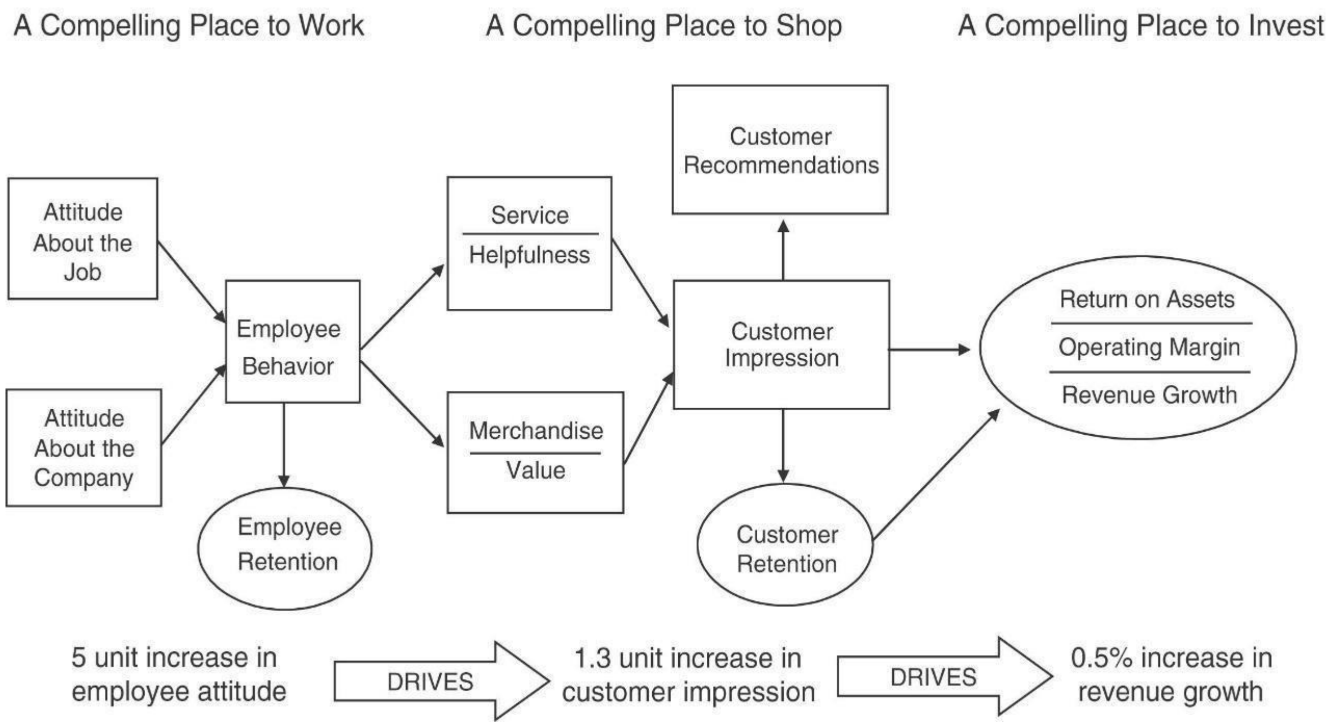
Watson Wyatt have constructed a survey of companies linking their key management practices to their market value concluded that four major categories of HR practice could be linked to a 30 per cent increase in shareholder value,.

The methodology focuses more on a 'best practice' concept of value-adding HR policies than the 'best fit' approach applied in the models presented thereafter.

| Practice | Impact on market value |
|---|---|
| Total rewards and accountability that differentiate between high and poor | 16.5% |
| Collegial, flexible workplace environment encouraging teamwork and | 9.0% |
| Recruiting and retention excellence development of recruitment to | 7.9% |
| Communication integrity where goals are clearly stated | 7.1% |

### 2.4.8. 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
- Measuring and improving employee satisfaction has become an important basis of organizational improvement.
- Employee attitude or climate surveys have become a key measure of human capital.
- Surveys have shown links between employee morale and business metrics, particularly at the business unit performance level




**The Engagement Model** goes beyond measuring people's satisfaction with each of these drivers. The model prioritizes the areas for improvement based on their potential impact on engagement and, therefore, business performance. Another key premise of the Engagement Model is that the Engagement Drivers are interrelated; they do not operate in isolation.

### 2.4.9. PEOPLE AND PERFORMANCE MODEL

This framework, as Harney and Jordan (2008) state, is built on two assumptions central to "unlocking the black box" of HRM-Performance linkage:

1) The frame work advances the concept of discretionary behaviour by suggesting that virtually all employees have the capacity to engage in discretionary behaviour;

2) The critical role of line managers is to have discretion in the way that they apply HRM and the way they behave towards employees The people-performance model also focus on employees‟ abilities (they can do the job because they possess the necessary skills), motivations (they will do the job because they want to and are given adequate incentives to do so) and opportunities to participate (the work environment provides the necessary support and avenues for expression) (Boselie, 2010).

Central to this model is the concept that performance is a function of Ability + Motivation + Opportunity (AMO). On the outside ring, 11 policy or practice areas are identified to feed into and give meaning to AMO. The second crucial feature of the model is the central box – front-line management – which draws attention to the fact that nearly all HR policies are applied through and by line managers. It is these managers who bring policies to life. Organizational commitment, motivation and job satisfaction all lead to discretionary behaviour, which in turn generates performance outcomes, which in themselves contribute to commitment, motivation and job satisfaction.

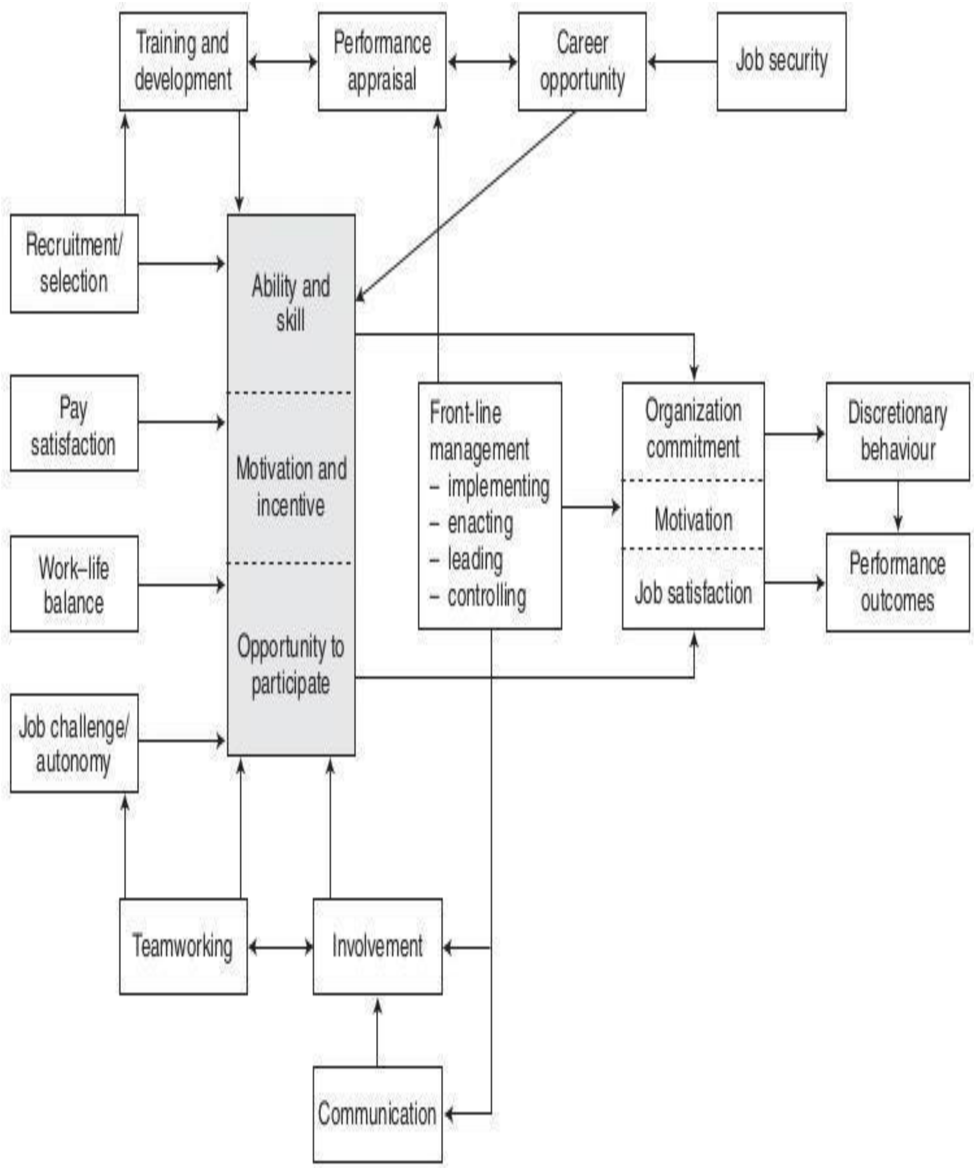



**Figure 6.2** The Bath people and performance model

It is important to emphasize the notion of HCM as a journey. Therefore an effective human capital measurement model will give an accurate, timeous and people intelligence to become world class in human capital management at operational and organizational level.

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# UNIT – IV – Human Capital Management – SBAA7018

## Human Capital

Human capital, as a large component of that value, has been the focus of an incredible body of research looking at the relationship between a company's human assets and its financial well-being, growth, innovative capacity, and long-term sustainability. In response, organizations around the world have prescribed best practices for managing, measuring, and reporting human capital.

Human capital is increasingly recognized as an important ingredient in business performance, it possess a distinctive set of problems for company reporting. Once the organization have generated information about human capital and its contributions to the business, the organization must be able to communicate this in a way that will have both relevance and value to a variety of stake holders. Unlike other assets of the firm, human capital is not owned by the organisation, but is secured through the employment relationship. In reporting terms, the implications of these features are that human capital cannot be readily incorporated.

Human capital reports provides qualitative information on the employees, HR practices, trends in the company etc which can help the business grow. It covers aspects like organization structure, employee data, expertise & skills of the employees, salaries, policies etc. Human Capital Reporting is reporting of valuation of human resource inside company, which usually consist intangible values.

## Issues with Human Capital Reporting:

1. No mechanism to verify correct valuation in terms of accounting-

It is known that all the financial reports published by the companies are audited. Financial Audit ensures whether correct accounting practices are followed and brings out any fraudulent activities in accounting. For HCR, there is no such audit. Hence HCR not subjected to verification.

2. Companies which initiated HCR as the good practice found themselves in financial trouble.

But, still organizations involve themselves in the process of Human capital reporting which is being classified as internal reporting and external reporting.

**INTERNAL REPORTING**

Internal reporting is still the most common form of reporting. Despite the requirements of the OFR and now the Business Review, very few companies are providing anything other than headline data externally. However, internal reporting is becoming increasingly sophisticated as organizations recognize the benefits of disseminating better and more accurate data around their organizations. The benefits of internal reporting included-

1. Better-informed decision making by managers about what kind of actions or practices will improve their business results;

2. Increasing ability to recognize problems and act on them before they escalate;

3. Recognition for the HR functions as a source of information;

4. Increased ability to demonstrate the effectiveness of hr solutions and hence improve the argument for greater investment in hr practice.

The Chartered Institute of Personnel Development (CIPD) produced a guide on human capital reporting in 2004. This guide stresses that human capital evaluation and reporting is a journey. It does

no matter where organizations join the road so long as they are all heading in the same direction with the aim of providing better-quality and more reliable information.

The information resulting from the various stages starting from establishing the effectiveness of HR through demonstrating the contribution of process to human capital evaluation, measurement and management, is usually reported internally in the form of management reports providing information for line managers. However, this information will not be valued by line managers unless:

1. It is credible, accurate and trustworthy.
2. They understand what it means for them personally and how they manage their team.
3. It is accompanied by guidance as to what action should be taken.
4. They have the skills and abilities to understand and act upon it.

It is not enough simply to give managers and other stakeholders information on human capital. The information must be accompanied by effective analysis and explanation if they are going to understand and act upon it in the interests of maximizing organizational performance.

**BASIC MODEL OF INTERNAL REPORTING**

The basic model of human capital evaluation and reporting might therefore look like as in Figure 1.

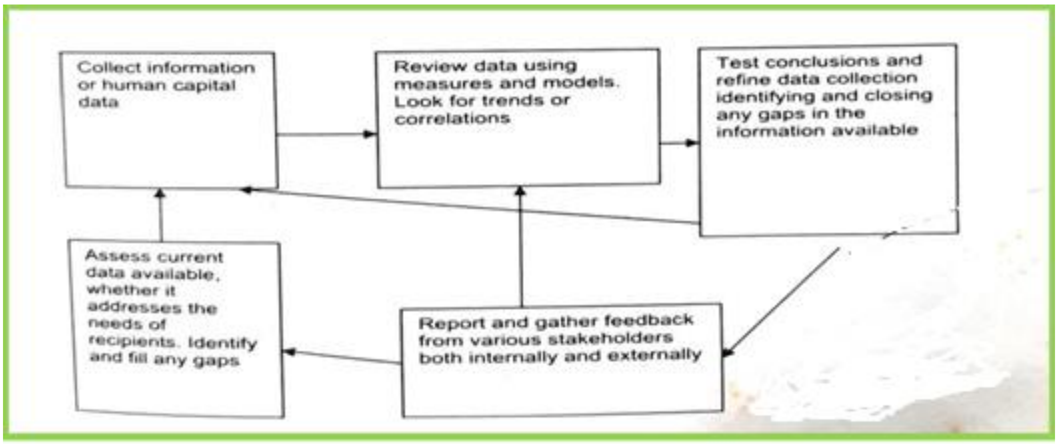



**Figure 1. - Evaluating and Reporting on Human Capital**

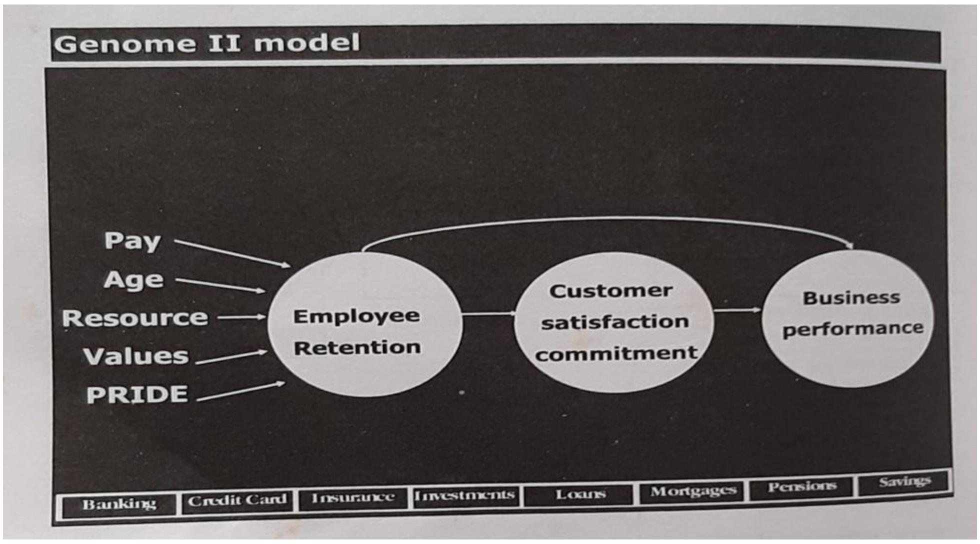
If this data collection cycle is completed properly the quality of the data and its analysis should improve over time and be tailored to the demands and needs of the recipients. In turn recipients find the data helpful and trustworthy they are likely to demand more and more information, creating a virtuous cycle of data collection, analysis and reporting.

Human capital information will only bring about change if the recipients of the data value it, trust it, and are prepared to allow it to inform their actions. Those actions might be whether or not to work for the company, to invest in the company, to buy from the company or to supply to the company.

As a result there are various kinds of reporting the company needs to engage in to communicate effectively the relevant information on human capital to a range of audiences. This will include reporting both internally and externally.

Increasingly, organizations are using dashboards to communicate human capital information to line managers for information and decision-making purposes. The Nationwide Building Society has a sophisticated system based on their Genome II model, Fig. 2, (reported in CIPD, 2004). The model, which is based on the service-profit chain, has enabled them to make correlations between employee retention, customer satisfaction and commitment and business performance.

Through their use of dashboard information branch managers can assess their performance against a variety of indicators using a simple traffic light system and have access to guidance on remedial action if the dashboard indicates that they are not performing in particular areas, which is illustrated in Fig. 3.




Source: The Nationwide Building Society

**Fig. 2. The Nationwide Building Society's Genome II Model**

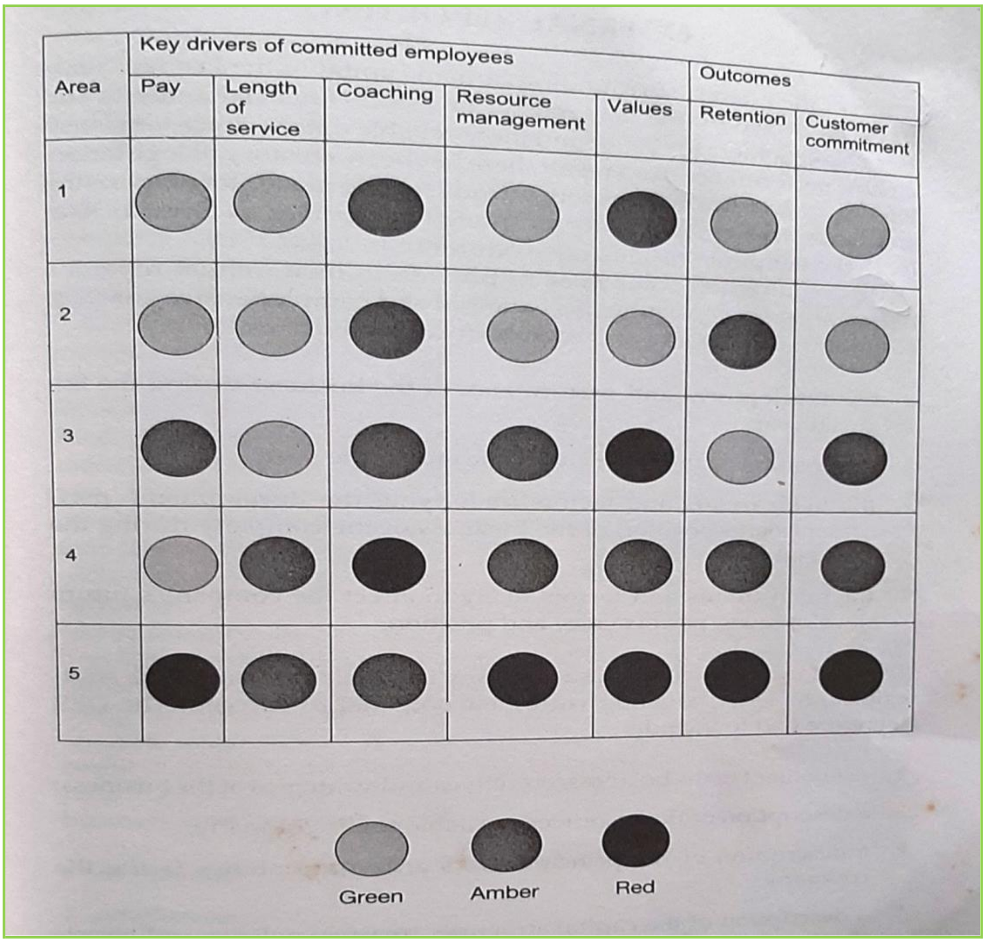



**Figure. 3. Human Capital Reporting Dashboard for Area Managers: The Nationwide Building Society**

## EXTERNAL REPORTING

Much of the interest surrounding human capital in the last few years has been driven by the demands of investors, financial analysts and other stakeholders for better and more reliable data on long-term sustainable performance.

This required all companies to provide in their annual reports a narrative report consisting of a balanced and comprehensive analysis consistent with the size and complexity of the business of:

1. The development and performance of the business during the financial year;
2. The position of the company at the end of the year;
3. The main trends and factors underlying the development, performance and position of the business of the company during the financial year;
4. The main trends and factors likely to affect the company's future development, performance and position.

This had to be presented in such as way to enable the company's strategies to be assessed along with their potential to succeed. The OFR therefore had to include:

1. A statement of the business, objectives and strategies of the business;
2. A description of the resources available to the company;
3. A description of the principal risks and uncertainties facing the company;
4. A description of the capital structure, treasury policies and objectives and the liquidity of the company.

To comply with these requirements companies were advised to include information about the environment, employees, social and community issues plus the company's policies and how these have been implemented and to state which areas they were not including information on. They also had to include analysis using financial and where appropriate key performance indicators, including information in environment and employee matters.

**THE CIPD EXTERNAL REPORTING FRAMEWORK**

More work is needed to determine exactly what human capital information is needed, and more particularly what information HR needs to provide, to satisfy the demands of investors. However, in its guidance for members the CIPD has suggested a framework for external reporting (CIPD, 2003).

Human capital does still represent one of the most important predictors of business performance. The firm's ability to support its business strategy with human capital is an important indication of future business performance. It follows that the reporting of human capital should have a future orientation and that it embraces both historical data such as absence, headcount and pay, but also information about the development of future capabilities (training and development, workforce diversity and equality of opportunity).

The CIPD framework therefore suggests a number of the dimensions on which reporting might take place with a range of potential measures for each. This is reflected in the following principles on which the framework is based:

1. Firms acquire and retain human capital via the employment relationship - skills are mobile.
2. Employee competencies are developed both through training and learning by doing.

3. To add value, employee skills needed to be managed - that is, motivated and applied to appropriate tasks.
4. Human capital makes a significant contribution to corporate performance.

**The CIPD external reporting framework**

The CIPD external reporting framework proposes a balanced scorecard approach to human capital encompassing indicators on a whole range of activities and measures. These are summarized in Figure 4.

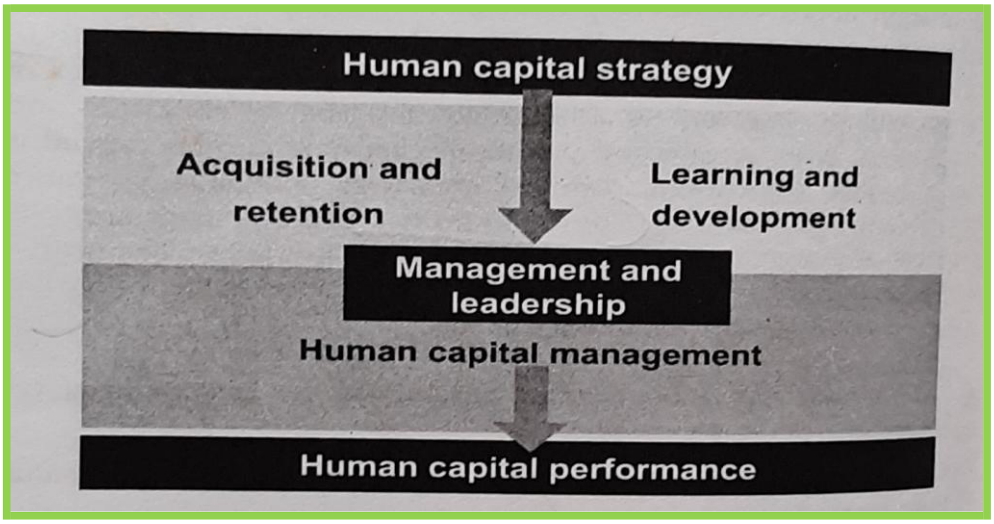



Fig. 4. CIPD External Reporting Framework

The framework is based on the five categories of human capital strategy, acquisition and retention, development, management and performance. It proposes that each category includes a narrative describing how the firm is addressing the issues it contains plus a menu of key and discretionary indicators describing what outcomes are being achieved in relation to these activities.

**Principles of External Reporting**

| Principle | Features of framework |
|---|---|
| Add value to the decision making undertaken by stakeholder groups in respect of human capital, with value added exceeding the costs of information gathered | Information should be relevant to the identification of human capital and should be available in both narrative form and as quantitative indicators<br>The information-gathering requirement should be clearly defined and should not be too costly |
| Balance the advantages of comparability with other organizations with the need for flexibility to reflect particular contexts | There should be a distinction between primary and secondary indicators |
| Provide information on possible institutional barriers to the effective development and utilization of human capital within firms | Indicators to highlight possible barriers to the under-utilization of human capital based on sex, age or race |
| Reflect the dynamic and context-dependent nature of human capital | There should be multiple categories of indicators to reflect the acquisition, development, management and per-formance of human capital |
| Be future-oriented to highlight the contribution of human capital to future performance | The framework should incorporate information on both the near-term and the long-term, highlighting both investments in and depreciation of human capital. It should provide information not only on human capital stocks but also on the management and utilization of the flow of human capital |

**Fig.5. Principles of External Reporting**

A detail of the framework under the headings of a narrative and a list of primary and secondary indicators for the activity areas (each of which includes management and leadership in recognition of its significance) is set out in Figure 6(a), 6(b), 6(c).

| Activity area | Narrative – near-term and long-term | Primary indicators | Secondary Indicators |
|---|---|---|---|
| **Acquisition and retention** | How the firm sources its supply of human capital; composition of the workforce in terms of diversity and employment relationships (full-time, temporary, etc)<br>Policies for the retention of key skills | Average number of vacancies as a percentage of the total workforce per month/year<br>Ratio of internal to external recruitment for job vacancies<br>Salaries and benefits costs – breakdown by full-time and temporary worker costs<br>Average length of time taken to fill vacancies<br>Staff turnover – averages for different levels of management and employees | Composition of the workforce in terms of age, gender or race<br>Costs of recruitment<br>Length of service distribution (eg percentage less than 2 years, percentage less than 10, percentage less than 20)<br>Return on human capital (profits/payroll and training costs)<br>Evidence of skills shortage or shortfall of skill between what is required and that possessed by job applicants |
| Management and leadership | How the firm sources a supply of leadership talent<br>Succession planning practices and category and number of the organizational population they cover<br>Size of the relevant talent pool | Composition of board and executive team – age, gender, experience.<br>Percentage of variable pay at senior levels<br>Percentage of senior managers recruited internally/externally | Turnover in senior management, percentage per annum<br>Performance criteria for senior management and extent to which this links to remuneration |

Fig. 6(a). External Reporting Framework

| Activity area | Narrative – near-term and long-term | Primary indicators | Secondary Indicators |
|---|---|---|---|
| **Learning and development** | How the firm develops its human capital. Training and development policy. Skills levels of the workforce. Development strategy in terms of raising skills levels, changing the skills mix. Strategy for the provision of training. Aims and objectives of training and development | Off-the-job training days/FTE as percentages by category and grade of staff<br>Expenditure on off-the-job training (overall and as percentages by categories and grade of staff)<br>Expenditure on workplace learning (overall and as percentages by categories and grade of staff) | Number of employees who have attained a particular competency level<br>Number of employees attaining formal qualifications, including NVQs<br>Number of internal promotions<br>Number of employees who complete personal development plans<br>Expenditure on career counselling/planning |
| Management and leadership | Approach to management development and details of management development programmes. Criteria used to determine management competence | Management development spend per manager<br>Average number of days training per year per manager | Number of managers possessing formal management qualifications<br>Length of time required for managers to attain satisfactory level of competence<br>Staff or customer data on management ability |
| **Human capital management** | How the firm manages (motivates and aligns) its human capital<br>Expressed values of the organization with regard to the preferred management style<br>Management policy and practice on selection, communication, consultation, appraisal and reward, and human capital evaluation. Operation of consultation and involvement schemes, Works Council arrangements, trade union structure<br>Structure and delivery of HR services | HR spend per employee<br>Percentage of employees covered by formal HR policies in the following areas<br>• recruitment and selection<br>• training and development<br>• appraisal and performance management<br>• job design<br>• communication, consultation and employee involvement<br>• financial flexibility (performance/team-based rewards)<br>• harmonization<br>• employment security | Available benchmark indicators based on recognized methodology/standard<br>Measures of employee commitment<br>Measures of employee satisfaction<br>Percentage of shares held by employees<br>Percentage of variable pay by category and grade of employee<br>Percentage of employees covered by company share schemes |

**Fig. 6(b). External Reporting Framework**

| Activity area | Narrative – near-term and long-term | Primary indicators | Secondary Indicators |
|---|---|---|---|
| Management and leadership | Induction programme for directors<br>Criteria used to determine leadership potential | Days per year spent resourcing top team development | |
| **Performance** | The value created by human capital. Indications of the strategy for the collection and retention of knowledge.<br>Criteria used to determine individual and team performance | Market capitalization per employee<br>Revenue per employee<br>Profit per employee<br>Sales per employee | Adjusted profit/ employee<br>Unit productivity/ employee<br>Measures of customer satisfaction<br>Measures of employee satisfaction and loyalty |
| Management and leadership | Value created by management and leadership. Development of firm capabilities. Durability of management strategy | Percentage flow of human capital in and out of the organization | Employee perceptions of management |

**Fig. 6(c). External Reporting Framework**

Therefore, the data collected, analyzed and presented in report in regard to human capital must be linked to action with appropriate guidance and support and it must be multi-dimensional, reflecting the unique character of human capital.

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# UNIT – V – HUMAN CAPITAL MANAGEMENT – SBAA7018

# UNIT 5 - APPLICATIONS OF HCM

## Human Capital Value or ROI of Human Capital

### Measurement of Human capital’s contribution to enterprise goals

A process that has been used successfully to determine Human Capital Value or ROI includes the following steps:

1. Strategic Goal Alignment
2. Identification of Value Drivers
3. Human Capital Benchmark Measurement
4. Development of Effective Human Resource Solutions

**1. Goal Alignment**: Clearly identifying organizational goals and measurable outcomes is critical to the development of effective Human Capital strategies. A cascaded approach at both the strategic and tactical levels provides clear line-of sight that enables programs and activities to be focused.

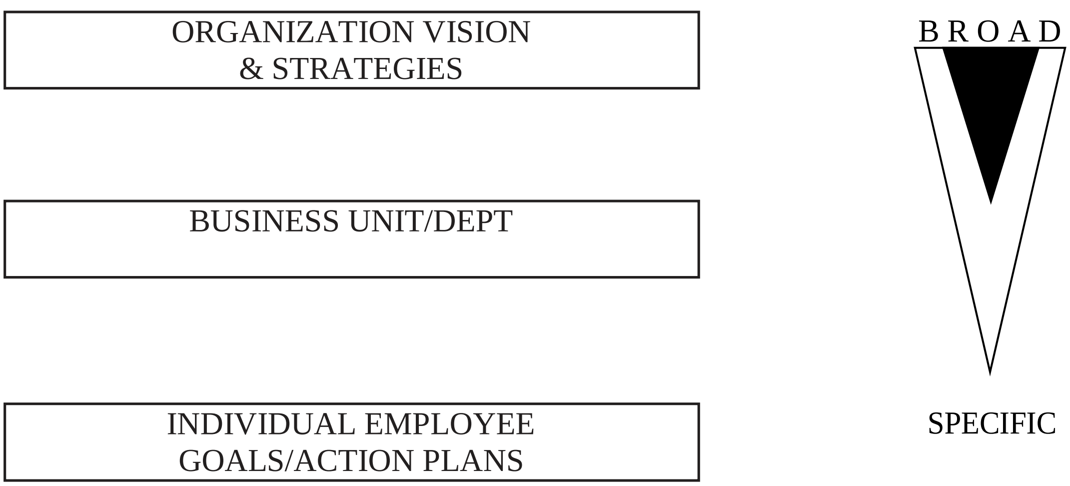


**Figure 1. Goal Alignment**

2. **Identification of Value Drivers:** An important component of Goal Alignment is the identification of Key Value Drivers for the organization that affects the success of Human Capital programs and value creation. The model below identifies the role and important of these drivers in the process of developing effective Human Resource solutions that fit a particular organization.


**Figure 2. Human Capital Value Creation**

3. **Human Capital Benchmark Measurement:** Benchmarking is a quantitative method for measuring and improving processes, products and services that speaks to the language of business.

Benchmarking requires:

- Effective performance measures and evaluation
- Internal diagnostics to identify high leverage activities and drivers

It is also important to use measurements or metrics that provide feedback on issues that are specific to your organization, so that they can provide some direction or factual basis for decisions on those issues. Here are a few examples:

1. ROI on Human Capital =

Revenue – (Operating Expense <u>less Costs for Human Capital) </u>Costs for Human Capital

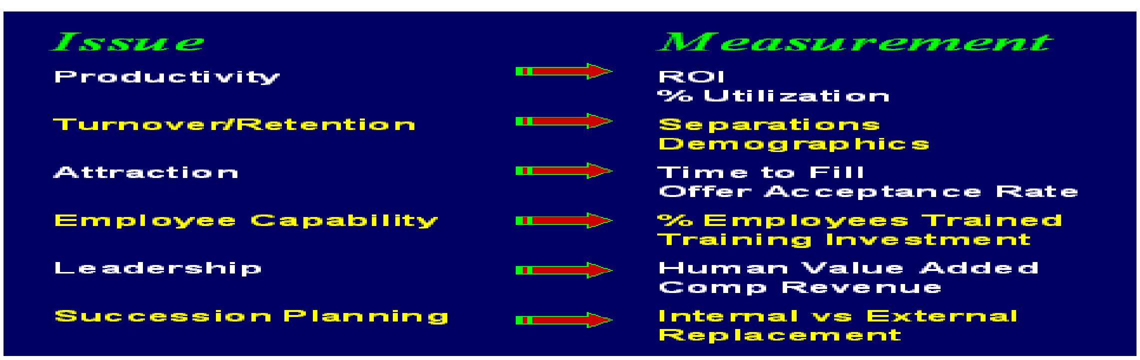


**Figure 3.Human Capital Benchmark Measurement**

**4. Development of Effective Human Resource Solutions:** The Human Capital Metrics provide a focused diagnostic to deter-mine where new or improved human resources solutions need to be developed in the organization. Once new strategies are identified and implemented, the cycle of measurement starts again. The results of new initiatives are measured against the expected results as well as industry benchmarks and strategies are then further refined.

**HR Metric** **Definition**

Human Capital ROI *Shows the ratio of income to employment costs*

Revenue Factor *Shows the revenue per employee (FTEs)*

Income Factor *Shows income per employee (FTEs)*

Expense Factor *Shows operating expenses per employee (FTEs)*

Human Added Value *Shows income net of employment costs per head*

HR Expense % *Shows HR expense as a % total operating expenses*

HR Headcount Ratio *Shows ratio of employees served to HR employees (FTEs)*

HR investment Factor *Shows HR operating expenses per employee (FTEs)* HR Structure Breakdown *% of HR resources applied to each key HR area* Voluntary Separations (Turnover) *Shows HR expense as a % total operating expenses* Training Investment Value *Shows $per person that is spent on training*

Internal Mobility Rate *Shows % of employees who move internally within a year*

Time to Fill Vacancies *Shows average number of days to fill a vacant position*

*[From Human Capital Benchmarking (HCB) Survey, The Wynford Group*

**Human capital value circle**

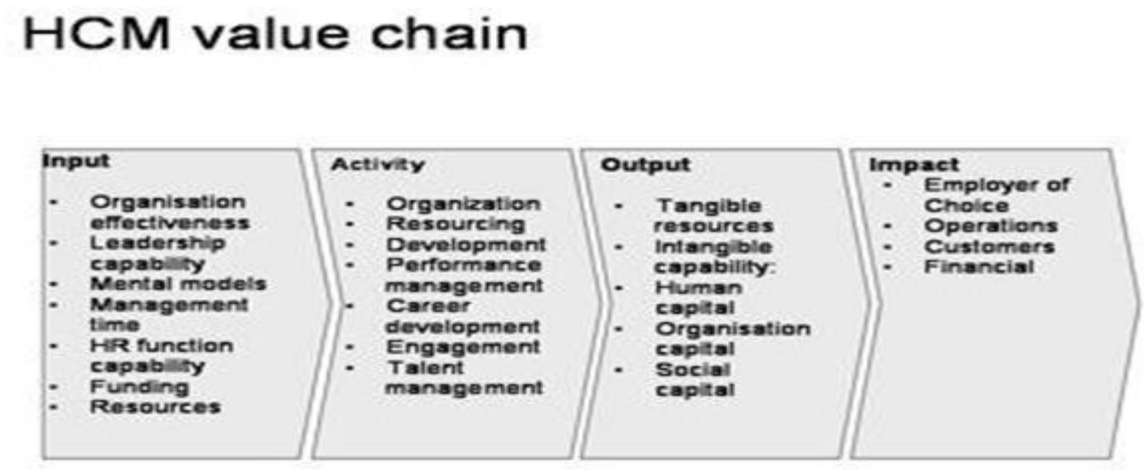


**Figure 4. HCM Value Circle/ Chain**

## I. Enterprise-level Metrics

Macro level data is the launching site of an ROI assessment system. The most common takeoff point is corporate sales or revenue.

### a) Human Capital Revenue Factor (HCRF)

A first step in looking at the human capital aspect of financials is to revise the traditional revenue per employee metric. **Sales per employee** is the standard measure used by the federal government and most business media. This equation is inadequate and out of date. In the days when management first began to look at sales or revenue per employee, the corporate landscape was considerably simpler than it is now. In other than seasonal businesses, most employees were hired to work full-time.

In addition to the traditional full-time employee, many people work part-time. This changes the corporate denominator from employee to full-time equivalent (FTE).

As a simple example, if ten people work half-time, the FTE is five people, although the number of ‘‘employees’’ is ten. The number ten represents what is commonly referred to as head count

To further complicate matters, approximately 20 percent of the U.S. workforce today is what has come to be called *contingent.* These are often referred to as *rented* employees. According to government statistics, in the past ten years, contingent workers as a percent of the U.S.

workforce have increased almost 10 percent. These people are not truly employees, because they are not usually on the payroll. Nevertheless, their labour has to be accounted for in order to have a valid representation of the labour invested to produce a given amount of revenue.

At the end of the day, we have converted revenue per employee into revenue per FTE (including full-time, part-time, and contingent labour hours). FTE is a surrogate for total labour hours invested. It is a basic measure of human productivity, in that it tells us how much time was spent to generate a given amount of revenue.

$$HCRF = \frac{Total\ \ Revenue\ \ Earned\ \ t\ \ roug\ \ Sales}{Total\ Labour\ Hours\ Invested}$$

**b) Human Economic Value Added (HEVA)**

In the 1990s, the Stern Stewart organization popularized the term *economic value added*.5 EVA, as it is called, is defined as ***net operating profit after tax minus the cost of capital.*** The objective of this measure is to determine whether the actions of management have added true economic value rather than simply generated the typical financial statements, which can mask actual outcomes. EVA is very useful, in that it shows how much true profit is left not only after paying all expenses, including taxes, but also after subtracting the cost of invested capital. As Stern Stewart has pointed out, this can be a revealing measure of managerial performance. EVA can be given a human capital perspective by dividing it by the FTE denominator.

$$HEVA = \frac{Net\ operational\ profit\ after\ tax - Cost\ of\ Capital}{FTEs}$$

$HEVA =$ $EVA/$ FTEs

**c) Human Capital Cost Factor (HCCF)**

Just as the income statement displays both revenue and expenses, we can show human capital expenses to go along with various revenue and value calculations. There are four principal costs of human capital, which are:

1. Pay and benefit costs for employees
2. Pay costs for contingents
3. Cost of absenteeism
4. Cost of turnover

$$\boldsymbol{HCCF = Pay - Benefits - Contingent\ Labour - Absence - Turnover}$$

**d) Human Capital Value Added (HCVA)**

The issue of human capital productivity was seen in a simplistic form as revenue per employee. Then, we saw a more accurate form in revenue per FTE (HCRF). Next, we introduced cost with HCCF. Now, if we want to move to profitability per FTE, we have the following formula:

$$\boldsymbol{HCVA = \frac{Revenue - Expenses - Pay\ and\ Benefits}{FTEs}}$$

In this case, we are looking at the profitability of the average employee. By subtracting all corporate expenses, except for pay and benefits, we obtain an adjusted profit figure. In effect, we have taken out nonhuman expenses. Then, when we divide the adjusted profit figure by FTEs, we produce an average profit per FTE. Note that this can be set up to include or exclude the cost of contingents, absence, and turnover.

**e) Human Capital Return on Investment (HCROI)**

Another relationship of human capital investments to profitability can be made visible through a ratio that follows from the formula for HCVA. HCROI looks at the ROI in terms of profit for monies spent on employee pay and benefits.

$$HCROI = \frac{Revenue - Expenses - Pay\ \&\ Benefits}{Pay\ \&\ Benefits}$$

Again, by subtracting expenses except for pay and benefits, we have an adjusted profit figure. In effect, we have taken out only nonhuman expenses. Then, when we divide the adjusted profit figure by human capital costs (pay and benefits),we find the amount of profit derived for every dollar invested in human capital compensation (not counting training and the like)—in effect, the leverage on pay and benefits. This can be expressed as a ratio.

**f) Human Capital Market Value (HCMV)**

*Tobin's Q* is a ratio that measures the relationship between a company's market value and its replacement value. It is a metric that is sometimes cited by the naive as a measure of human capital value.

In one sense, it is the market's view of the value of intangible assets. This can include not only human capital but also other forms of intellectual capital such as process capability, brand recognition, or marketing acumen. It is an interesting number, but it is subject to wild stock market fluctuations having nothing to do with the capability of the organization's human capital or the utilization of tangible assets.

$$HCMV = \frac{Market\ value - \text{Book Value}}{\text{FTEs}}$$

**Table 1. Human capital accounting formulae: enterprise-level metrics**

| Formula | Description | Purpose |
|---|---|---|
| Human capital revenue factor | Revenue / number of full-time equivalent (FTE) employees | Very simple productivity measure |
| Human capital profit index | Revenue – purchased services per FTE | Portrayed as a measure of the leverage of human effort that resulted in profit |

| | | |
|---|---|---|
| Human economic value added | (Post-tax profits – costs of capital) / FTE | EVA originally portrayed as a measure of the value added by management. HEVA is portrayed as the average amount of EVA per employee |
| Human capital cost factor | Total pay and benefits costs + pay costs for contingent workforce + costs of absenteeism + costs of turnover | Measure of the ‘total’ cost of human capital |
| Human capital value added | Revenue – (expenses – pay and benefits) / FTEs | Measures average profitability per FTE |
| Human capital return on investments ratio | Revenue – (expenses – pay and benefits) / pay and benefits<br><br>Alternative formula (Vienna index): HCROI = (EBITDA – financial capital costs) / human capital investment | Measure of profit in return for expenditure on pay and benefits |
| | EBITDA = earnings before interest, taxes, depreciation and amortisation | |
| Human capital market value (Tobin’s Q) | Market value – book value / FTEs | Measures relationship between market value and replacement value. In one sense, a market view of intangible assets. Difficult to identify how much of this is down to human capital compared with other |

| | | |
|---|---|---|
| | | intangibles. |
| Return on investment of human capital initiatives formula (for example training) | (Revenue generated – costs of programme) / costs of programme | Measure of profit or return on any HR programme |

Source: Fitz-Enz (2009).

## II. Foundation Trait Metrics

In this type of metrics value addition is made through setting requirement levels at all functional areas of business. It acts as an interface between various processes from outside. Each individual employee will be held responsible to meet the requirements of the organisation.

Fitz-enz (2000) proposed a series of six functional level leading indicators to monitor the overall well-being of an organization's workforce. These indicators focus on the characteristics of the workforce and are also valid predictors for the future performance based on the current stock of human capital.

i. **Human Capital Competence Level:** Percentage of key employees who have met competence standards

ii. **Human Capital Readiness Level:** Percentage of key positions with at least one fully qualified person ready

iii. **Human Capital Commitment Level:** Percentage of employees expecting to stay at least three years

iv. **Human Capital Satisfaction Level:** Percentage of employees scoring in top quartile of job satisfaction survey

v. **Corporate Climate:** Percentage of employees who indicate concern with culture and climate

vi. **Human Capital Depletion Rate and Cost:** Voluntary separations as a percentage of head count and the cost of separations

### III. Structural trait Metrics

Jac Fitz-enz categorizes Structural trait data in terms of external and internal forces that relate to those different types of capital.

**External Force**: Remodel work spaces, Reorganize, Go green regulations, Invest in new technologies, New product introduction

**Internal Factors:** Protocol review of culture, Facility design, Work processes capabilities, Span of control of leadership, Manage cost on employees.

## Human Capital Metrics / Analytics System

The second level of measurement is the business unit. At this stage, the changes in intermediate-level quality, innovation, productivity, and service (QIPS) outcomes. Measurement is fundamentally about assessing degrees of change. All business objectives can be reduced to these QIPS categories. All changes can be measured through some combination of cost, time, volume, errors or defects, and human reactions.

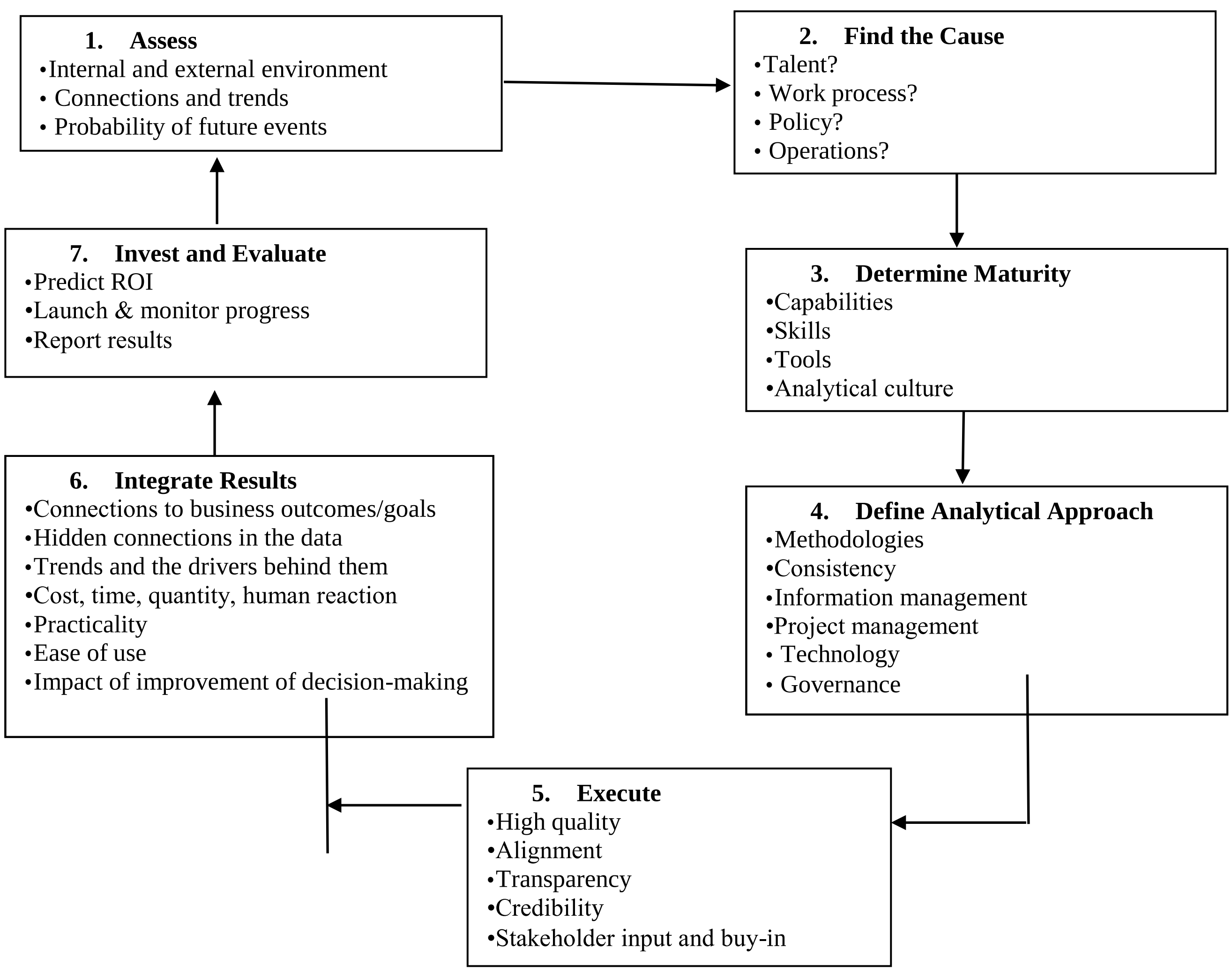


**Figure 5. Human Capital Metrics System**

**NINE STEPS TO METRICS DESIGN AND EXCELLENCE**

I. **Re-examine your business objectives.**

- Before doing anything else, revisit your organization's strategic business objectives.
- While there is some value in each function measuring its own performance, the overriding priority should be the satisfaction of the end customer (either internal or external).

II. **Take the 'CUP' test.**

- It is surprising how many organisations are busy accumulating reams of data from which no-one seems to be able to extrapolate much useful information.
- If you already collect metrics, take this opportunity to rifle through the reporting archives. Give each set of data the 'CUP' test.
- Does it make a contribution to overall organizational business objectives?
- Does it provide an insight into whether organizational resources are being utilised at their optimum level?
- Does it make any assessment of productivity which could lead to efficiency gains and therefore a better customer experience?
- If each set of data does not address at least one of these three criteria, then question the usefulness of continuing to collect it.

III. **Keep it simple.**

- Information overload is a greater threat to the effectiveness of HR than a complete lack of measurement.
- Research has suggested that in order to focus on the priority areas, around five key metrics is a good place to start, although the exact number will vary depending on strategic business objectives.

IV. **Decide what types of metrics to capture.**

- Metrics fall into three principal categories, says US recruitment guru Lou Adler: historical, real- time and forward-looking.
- Historical metrics give a good general indication of an organization's health.
- Real-time metrics are the snapshots which can act as warning signs that a process may be about to go horribly wrong

- Forward-looking metrics extend current and historical trends into the future to enable contingency planning.
- In order to present a comprehensive picture, your chosen metrics suite should ideally contain all three types of figures, though the exact proportions will depend on your industry type and strategic business objectives.

**V. Establish a benchmark.**

- The current state of affairs should be measured so that the future impact of any changes can be assessed.
- You may have some idea where you're heading, but if you don't know your starting point on the map you're still very likely to get lost.
- You could also look at benchmarking your organisation against other similarly sized organisations or industry 'best of breeds'.

**VI. Integrate data collection into existing work flows**

- Avoid burdening staff with extra workloads.
- Data should be collected automatically without the need for manual maintenance of parallel
- systems
  - The latest HRIS make it possible to data mine in a way that would have been inconceivable as little as 15 years ago.

**VII. Allocate resource for analysis.**

- Only by undertaking rigorous analysis will HR be able to transform data into meaningful and valuable strategic information.
- Don't make the results too complex or else they may be dismissed out of hand as being too scientific or too academic.
- Graphical representations with short textual summaries make for greater accessibility and readability.

**VIII. Have the power to act.**

- The gathering of metrics is a useless exercise in administration if HR lacks the teeth to act promptly on the findings.
- For example, if the metrics indicate that retention rates would be dramatically

improved by increasing performance-related bonuses but HR has no means of prompting this remedial action, then a potentially valuable tool has been wasted.

**IX.** Good business practice stipulates that all business processes and procedures should be subject to periodical review.

- When initially defining the metrics suite, ensure that a review date is built in.
- If a metric is enhanced following a review, make it clear in all future reports, so that readers analyzing historical trends are under no illusion as to what they are comparing.

**Two common errors are in developing metrics:**

Take a collaborative approach, in which you take a list of strategic HR metrics that you can live with to the CFO and let him or her select the specific ones that are most likely to measure business impact and be easily understood and considered strategic by top management. By letting the CFO play a role in the selection process and allowing them to make the final decision on what metrics you will move forward with, you eliminate many of the roadblocks you may encounter — and you'll recruit a high-level champion at the same time.

**Developing more metrics than it is feasible to maintain and utilize:**

A large number of metrics is both unnecessary and difficult to maintain. I recommend instead that you settle on between 8 and 12 really important metrics that demonstrate HR's impact on the business. collecting data and calculating metrics is time-consuming and expensive, it's important to focus your energies on the ones that really matter.

**HR excuses against metrics:**

- “You can’t measure what we do…”
- Lack of clear purpose for measuring
- Lack of cooperation between departments
- Difficulty extracting data from multiple systems
- Difficulty understanding and analyzing metrics
- Numbers used to draw inaccurate conclusions

**THE LINK BETWEEN HCM & BUSINESS STRATEGY**

**HCM is a bridge between HR and business strategy.**

It provides the basis for „evidence-based human resource management, ie the process of ensuring that decisions and proposals on the development and application of HR strategies and practices are backed up with hard data derived from research, benchmarking and the analysis and evaluation of the organizational context and management activities.

.It is the systematic analysis, measurement and evaluation of how people, policies and practices create value.

It is an approach to people management that treats it as a high level strategic issue rather than an operational matter.

HCM assessments and the impact of HR practices on performance is to justify these practices and improve the likelihood that they will work. The future of HCM as a strategic management process largely depends on getting this done.

A second way of specifying the link is to explore in more detail the people implications of business strategy and, conversely, the business implications of HR strategy. This can be done by analysing the elements of the business strategy and the business drivers and deciding on the HR-supporting activities and HCM data required.

A third and potentially the most productive way linking the HR and business strategy, is to link the business results to the HR practice to determine how they can best contribute to improve performance.

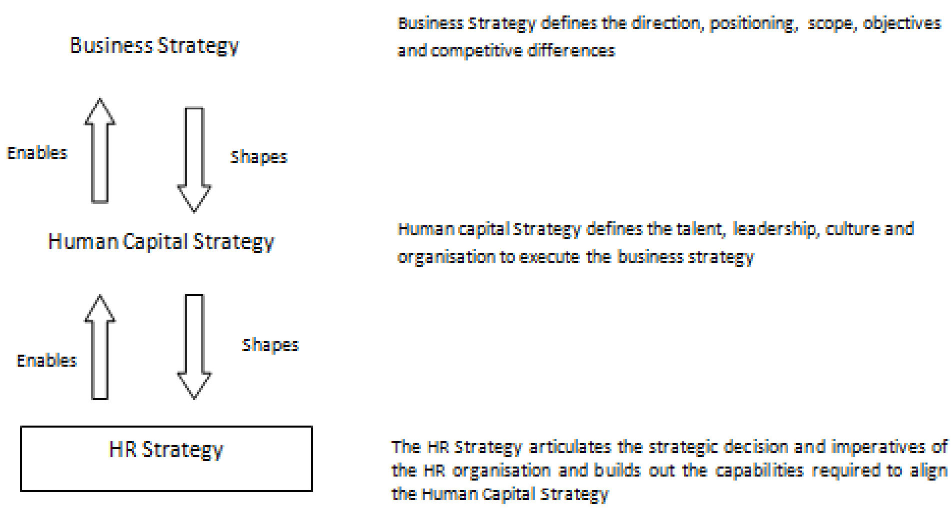


**Figure 6. The relationship between Business Strategy, Human Capital Strategy and HR Strategy**

**HCM & STRATEGIC HRM**

| S.NO | HCM | Strategic HRM |
|---|---|---|
| 1 | HCM is only concerned with outputs, results and value – right from the outset – and designs its interventions and activities accordingly | Focus on strategy, integration and coherence |
| 2 | HCM indicates the direction to be taken by a resource-based approach in order to improve resource capability – achieving strategic fit between resources and opportunities and obtaining added value from the effective deployment of human capital. Resource-based strategy, as | Strategic HRM focuses on satisfying the human capital requirements of the organization by reference to the data provided by human capital measurements |
| 3 | The key attributes people need to deliver effective performance can then be identified and defined in terms of recruitment and promotion, specifications, skills, competencies and upholding corporate values | It can be described as an approach to making decisions on the intentions and plans of the organization in the shape of the policies, programme and practices concerning the employment relationship, talent management, knowledge management, learning and Development, performance management, reward, and employee relationship. |
| 4 | A strategic HCM approach involves identifying the drivers of organizational performance such as customer service, innovation, quality and sales/cost leadership. | competitive advantage is obtained if a firm can obtain and develop human resources that enable it to learn faster and apply its learning more effectively than its rivals |

**The components of employee resourcing strategy are:**

- **Retention strategy** – preparing plans for retaining the people the organization needs
- **Talent management strategy** – ensuring that the organization has the talented people it requires to provide for management succession and meet present and future business needs
- **Recruitment and selection strategy** – planning the approaches used to obtain people

**HCM AND TALENT MANAGEMENT**

**The meaning of Talent and Talent management**

Talented people possess special gifts, abilities and aptitudes which enable them to perform effectively. As defined by the CIPD (2007f), „Talent consists of those individuals who can make a difference to organizational performance, either through their immediate contribution or in the longer term by demonstrating the highest levels of potential.‟ Talent management is the process of identifying, developing, recruiting, retaining and deploying those talented people.

| S.NO | HCM | Talent Management |
|---|---|---|
| 1 | Human capital is the investment made on the physical being in order to be equipped with relevant and useable armours (competencies). That is people need to be trained and later put in positions or given tasks to enable them to apply those skills. | Talent management is about positioning your pool of talented personnel in positions that will ensure optimal performance and benefit for the organisation. A common slogan for this is "putting the right people, at the right place, at the right time". |
| 2 | Human Capital Management, in contrast, includes other practices such as HRMS, payroll, workforce management (hourly scheduling), expense management, contingent workforce management, employee leave management, and other more administrative or transactional parts of managing people. | Talent Management refers to the organizational processes of recruiting, onboarding, leadership development, succession, performance management, pay for performance, career development, training, workforce planning, employee collaboration, and other "OD"-related practices and systems. |
| 3 | HCM tends to look at people from a total, financial and operational perspective. | While TM, which fits within HCM, focuses on the developmental practices of people. |

**THE PROCESS OF TALENT MANAGEMENT**

Talent management starts with the business strategy and what it signifies in terms of the talented people required by the organization. Ultimately, its aim is to develop and maintain a pool of talented people. Its elements are resourcing strategies, attraction and retention programmes, role design, talent relationship management, performance management, learning and development, management succession planning and career management.

**Process of talent management**

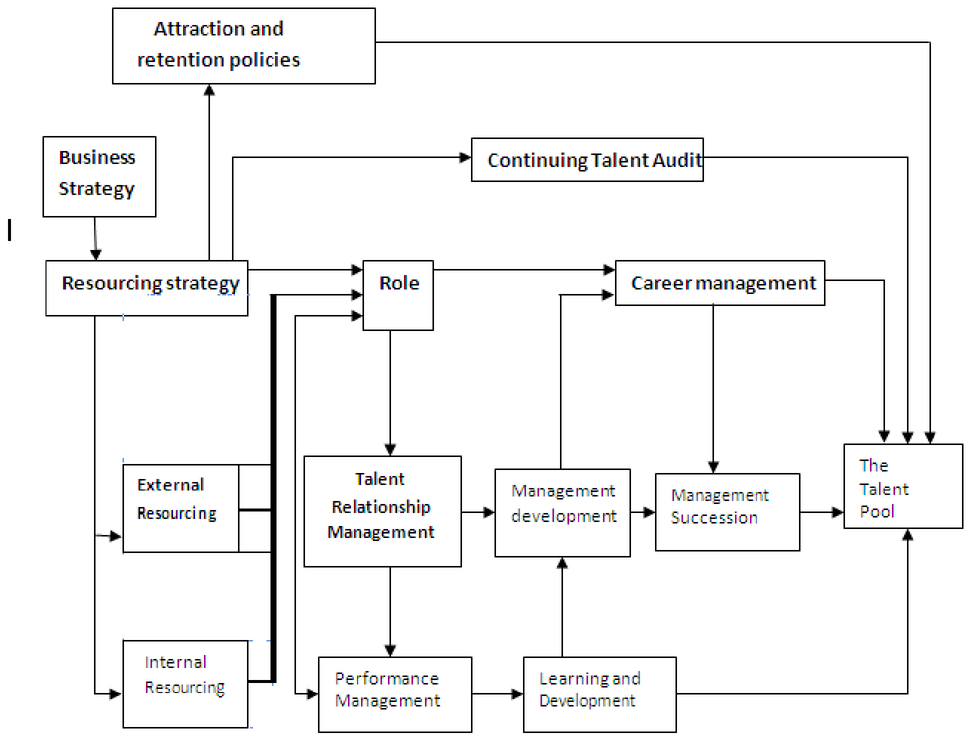


**Figure 7. Talent Management Process**

### i. The Resourcing Strategy

The business plan provides the basis for human resource planning, which defines human capital requirements and leads to attraction and retention policies and programmes for internal resourcing (identifying talented people within the organization and developing and promoting them).

### ii. Attraction and Retention Policies And Programmes

These policies and programmes describe the approach to ensuring that the organization both gets and keeps the talent it needs. Attraction policies lead to programmes for external resourcing (recruitment and selection of people from outside the organization). Retention policies are designed to ensure that people remain as committed members of the organization. The outcome of these policies is a talent flow that creates and maintains the talent pool.

**iii. Talent Audit**

A talent audit identifies those with potential and provides the basis for career planning and development – ensuring that talented people have the sequence of experience supplemented by coaching and learning

programmes that will fit them to carry out more demanding roles in the future. Talent audits can also be used to indicate the possible danger of talented people leaving (risk analysis) and what action may need to be taken to retain them.

**iv. Role Design**

Talent management is concerned with the roles people carry out. This involves role design – ensuring that roles provide the responsibility, challenge and autonomy required to create role engagement and motivation. It also means taking steps to ensure that people have the opportunity and are given the encouragement to learn and develop in their roles. Talent management policies focus on role flexibility – giving people the chance to develop their roles by making better and extended use of their talents.

**v. Talent Relationship Management**

Talent relationship management is the process of building effective relationships with people in their roles. It is concerned generally with creating a great place to work, but in particular it is about treating individual employees fairly, recognizing their value, giving them a voice and providing opportunities for growth. The aim is to achieve „talent engagement", ensuring that people are committed to their work and the organization.

**vi. Performance Management**

Performance management processes provide a means of building relationships with people, identifying talent and potential, planning learning and development activities, and making the most of the talent possessed by the organization

**vii. Learning And Development**

Learning and development policies and programmes are essential components in the process of talent management – ensuring that people acquire and enhance the skills and competencies they need. Policies should be formulated by reference to „employee success profi les", which are described in terms of competencies and define the qualities that need to be developed. Employee success profiles can be incorporated in role profiles.

viii. **Management Succession Planning**

Management succession planning takes place to ensure that, as far as possible, the organization has the managers it requires to meet future business needs.

ix. **Career Management**

Career management, is concerned with the provision of opportunities for people to develop their abilities and their careers in order to ensure that the organization has the flow of talent it needs and to satisfy their own aspirations.

**LEARNING & DEVELOPMENT IN HCM**

**Learning and development strategies**

Learning and development strategies ensure that the organization has the talented and skilled people it
needs and that individuals are given the opportunity to enhance their knowledge
and skills and levels of competence. Learning strategies are concerned with
developing a learning culture, Promoting organizational learning, establishing a
learning organization and providing for individual learning. It Includes

i. Learning culture Strategies
ii. Organizational Learning Strategies
iii. Learning Organisation Strategies
iv. Individual Learning Strategies

x. **Learning Culture Strategy**

It is described by Reynolds (2004) as a „growth medium" that will „encourage employees to commit to a range of positive discretionary behaviours, including learning" and that has the following characteristics:

empowerment not supervision, self-managed learning not instruction, and long-term capacity building not short-term fixes.

**Steps for developing a learning culture, Reynolds (2004)**

1. Develop and share the vision – belief in a desired and emerging future.
2. Empower employees – provide „supported autonomy‟; freedom for employees to manage their work within certain boundaries (policies and expected behaviours) but with support available as required.
3. Adopt a facilitative style of management in which responsibility for decision making is ceded as far as possible to employees.
4. Provide employees with a supportive learning environment where learning capabilities can be discovered and applied, eg peer networks, supportive policies and systems, protected time for learning.
5. Use coaching techniques to draw out the talents of others by encouraging employees to identify options and seek their own solutions to problems.
6. Guide employees through their work challenges and provide them with time, resources and, crucially, feedback.
7. Recognize the importance of managers acting as role models: „The new way of thinking and behaving may be so different that you must see what it looks like before you can imagine yourself doing it.
8. Encourage networks – communities of practice.
9. Align systems to vision – get rid of bureaucratic systems that produce problems rather than facilitate work.

**ii) ORGANIZATIONAL LEARNING STRATEGIES Meaning of Organizational Learning**

- A process of co-ordinated systems change
- It consist of a built in mechanisms
- Useful for both Individuals and groups
- Mainly to access, build and use organizational memory, structure and culture.

- It develops long term organizational capacity
- Its aim is to develop organisations resource based capacity to invest in people in order to increase the stock of knowledge and skills.

**Harrison (1997) has defined five principles of organizational learning:**

1. The need for a powerful and cohering vision of the organization to be communicated and maintained across the workforce in order to promote awareness of the need for strategic thinking at all levels.
2. The need to develop strategy in the context of a vision that is not only powerful but also open- ended and unambiguous. This will encourage a search for a wide rather than a narrow range of strategic options, will promote lateral thinking and will orient the knowledge-creating activities of employees.
3. Within the framework of vision and goals, frequent dialogue, communication and conversations are major facilitators of organizational learning.
4. It is essential continuously to challenge people to re-examine what they take for granted.
5. It is essential to develop a conducive learning and innovation climate.

**Single and Double Loop Learning (Argyris, 1992)**

| **Single Loop Learning** | **Double Loop Learning** |
|---|---|
| Organisation is intended to bring new learning to their employees | There is a mismatch between intentions and outcomes is identified and needs to be corrected. |
| It is the governing variables | It is the monitoring process |
| It is what the organisation is expected to achieve in terms of targets and standard's | It is the redefining action to meet the new Situation. |
| Monitor, review and corrective actions are taken as required | A new learning in the light of changed environment. |

| | |
|---|---|
| Incremental change | Radical change |

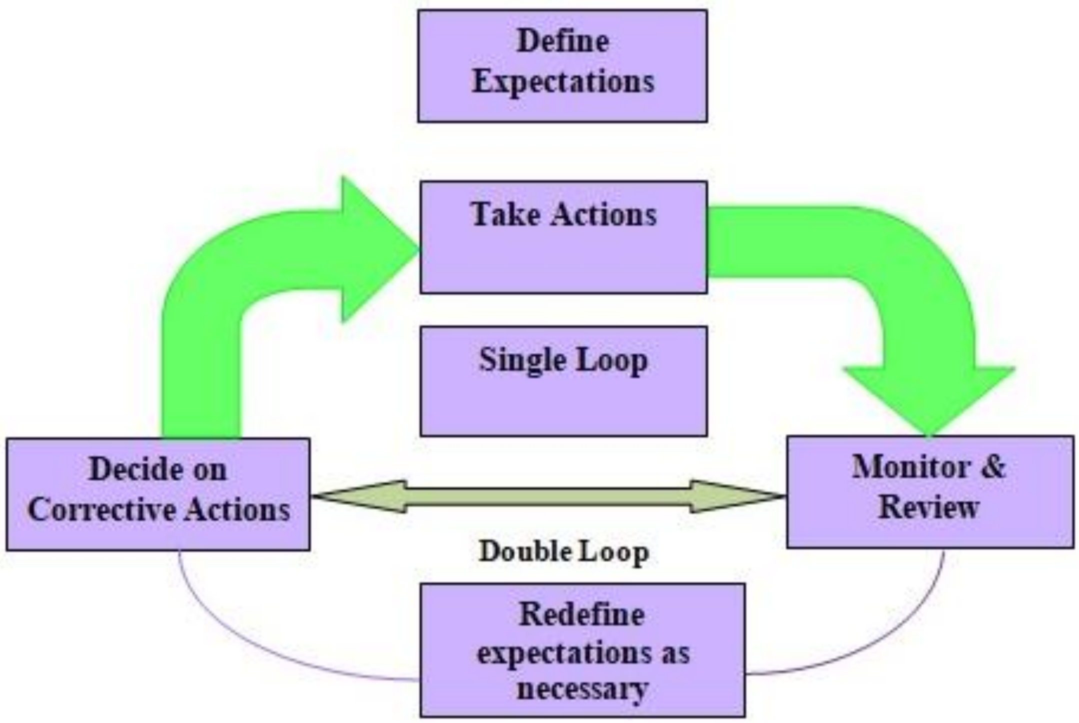


**Figure 8. Single Loop & Double Loop Learning**

**iii) Learning Organization Strategy**

**The learning organization, as defined by Senge (1990)**

The learning organization is one „where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning how to learn together‟.

**Meaning of Learning Organisations**

- Organisations continually expands their knowledge base to create its future
- Continually improves by rapidly creating and refining the capabilities required
- Facilitates the learning for all its members and transforms itself.
- Adapting to the changing context and developing their people to match the context.

**Five principles of learning organization strategy**

1. **Systematic problem solving ('plan–do–check–act' cycle):** fact-based management" – and simple statistical tools such as histograms, Pareto charts and cause-and-effect diagrams are used to organize data and draw inferences.

2. ***Experimentation*** – this activity involves the systematic search for and testing of new knowledge. Continuous improvement programmes – „kaizen" – are an important feature in a learning organization.

3. **Learning from past experience:** – „Santayana principle", quoting the philosopher George Santayana who coined the phrase: „Those who cannot remember the past are condemned to repeat it."

4. ***Learning from others*** **–**This process has been called SIS for „steal ideas shamelessly". Another, more acceptable word for it is „benchmarking" – a disciplined process of identifying best practice organizations and analyzing the extent to which what they are doing can be transferred, with suitable modifications, to one's own environment.

5. ***Transferring knowledge quickly and efficiently throughout the organization*** by supporting people with new expertise, or by education and training programmes, was long as the latter are linked explicitly with implementation.

**iv) Individual Learning Strategies**

Interventions and activities which are intended to improve knowledge and skills will increasingly focus on the learner. Emphasis will shift to the individual learner (or team). And he or she will be encouraged to take more responsibility for his or her learning. Efforts will be made to develop a climate which supports effective and appropriate learning. Such interventions and activities will form part of an integrated approach to create competitive advantage through people in the organization.

**Types of teach** (Harrison, 2005)

1. **Instrumental learning** – learning how to do the job better once the basic standard of performance has been attained. It is helped by learning on-the-job.
2. **Cognitive learning** – outcomes based on the enhancement of knowledge and understanding.

3. **Affective learning** – outcomes based on the development of attitudes or feelings rather than knowledge.

4. **Self-reflective learning** – developing new patterns of understanding, thinking and behaving and therefore creating new knowledge

**The learning strategy should cover:**

1. How learning needs will be identified;
2. The role of personal development planning and self-managed learning;
3. The support that should be provided for individual learning in the form of guidance, coaching, learning resource centers, mentoring, external courses designed to meet the particular needs of individuals, internal or external training programmes, and courses designed to meet the needs of groups of employees

**HCM &KNOWLEDGE MANAGEMENT**

**Knowledge management (KM)**

Knowledge management (KM) consists of some process in discovering, capturing, and sharing, applying knowledge to improve the knowledge for organizational improvement. In 2005, express that KM delivers several process of identify, select, manage, transfer, and disseminate the information for problem solving, strategic planning and decision making. It also can improve organizational intellectual capital. KM intends to create organizational competitive advantages to enhance the organizational objectives. It can be conducted through product or service innovation which facilitate by organizational core knowledge. KM implementations in each organization based on organizational requirement, condition and objective. Generally, KM can be describes as exploratory process through generate, capture, codify and transfer knowledge from organizational knowledge resource to achieve the organizational objectives.

KM strategy defines as process and infrastructure align with organization and technology which used to manage the knowledge. IT also focus into knowledge gap and how it can be solve. It also can increase organizational performance, innovation, built up financial result, improve process business and encourage human resource capabilities.

Knowledge management is „any process or practice of creating, acquiring, capturing, sharing and using knowledge, wherever it resides, to enhance learning and performance in organizations. It is concerned with both stocks (expertise) and flow (ways of knowledge transfer) of knowledge.

**Types of knowledge**

**i) Explicit Knowledge**

Knowledge can be stored in databanks and found in presentations, reports, libraries, policy documents and manuals. It can be moved around the organization through information systems and by traditional methods such as meetings, workshops, courses, „master classes‟, written publications, CDs or CD-ROMs, videos and tapes. The intranet provides an additional and very effective medium for communicating knowledge

- Deals with objective, rational, and technical knowledge
- Examples: policies, goals, strategies, papers, reports
- Structured knowledge that is easy to codify
- Easily manipulated, shared, taught or learned

**ii) Tacit knowledge**

- Unstructured knowledge – in the domain of subjective, cognitive, and experiential learning
- Highly personal, hard to formalize and document
- Cumulative store of the experiences, mental maps, insights, expertise, know-how, trade secrets, skills set, understanding, etc.
- Involves a lot of human interpretation.

**Knowledge Reservoirs**

**People:** (Groups, Individuals)

**Organizational Entities :**( Organizational Units, Inter-organizational Networks, Organizations)

**Artifacts:** (Practices, Technologies, Repositories)

**KM in Practice**

• Knowledge Teams - multi-disciplinary, cross-functional

• Knowledge (Data)bases - experts, best practice

• Knowledge Centers - hubs of knowledge

• Learning Organization - personal/team/or development

• Communities of Practice - peers in execution of work

• Technology Infrastructure - Intranets, Domino, doc

• Corporate Initiatives - CKOs, IAM, IC accounting

**Seven Levers of KM**

- Customer Knowledge - the most vital knowledge
- Knowledge in Products - „smarts‟ add value
- Knowledge in People - but people „walk‟
- Knowledge in Processes - know-how when needed
- Organizational Memory - do we know what we know?
- Knowledge in Relationships - richness and depth
- Knowledge Assets - intellectual capital

**Knowledge Management Approaches**

- **Personalization strategy** focuses on connecting knowledge workers through networks and depends on tacit knowledge and expertise. It provides creative, rigorous and highly customized customer services and products.
- **Codification Strategy** focuses on technology that enables storage, indexing retrieval and reuse. It provides high quality fast, reliable and cost effective service.

**Challenges in Knowledge Management**

**a) Pace of Change:**
- Differentiating, ensuring and keeping up with the speed
- Identifying what knowledge needs to be capture and shared

b) **Relating KMS and Business:** What, How and When – Knowledge that resides in the company

**c) Technology and people:**
- KM gives more concern o people than technologies
- The extent of interaction is needed between technology and people
- It limits how much tacit knowledge can be codified.
- Where to use technology to share and store knowledge

**d) Process significance**
- Social Capital – Network of relationship
- Company culture – keep knowledge to them.

**STRATEGY ROADMAP FOR KM IN HCM SUMMARY / IMPLEMENTATION STRATEGY FOR KM IN HCM**

| Criteria | Strategy |
|---|---|
| **PEOPLE** | Employee replacement and redistribution |
| | Knowledge enhancement (Development / training, KM process) |
| | Increasing the transfer and sharing knowledge among employees and leader through collaboration team |
| | Improve HR teamwork and participant in all activities |
| | Increase the commitment, integrity and loyalty in support of KM and public services |
| | Encourage the leader become more open, be a mentor and as a center of knowledge |
| **PROCESS** | Align HR development processes with knowledge requirement |
| | Make TNA / design staff development according to the needs of knowledge |
| | Improved process of human resource development by opening up greater opportunities |
| | Promoting a culture of sharing and transfer of knowledge and information to Change an employee mindset. |
| | Enhance dissemination of knowledge and information through media technology |
| | Leaders supervise KM process by directly engaging and conduct monitoring and evaluation |
| | Preparation of regulation, policy, and technical guidelines implementation |
| **IT** | KMS planning and implementation |
| | Improvement of KM process infrastructure |

**PERFORMANCE MANAGEMENT**

As Weiss and Hartle (1997) commented, performance management is: „A process for establishing a shared understanding about what is to be achieved and how it is to be achieved, and an approach to managing people that increases the probability of achieving success.

**Performance management is concerned with:**

- Aligning individual objectives to organizational objectives and encouraging individuals to uphold corporate core values;
- Enabling expectations to be defined and agreed in terms of role responsibilities and accountabilities (expected to do), skills (expected to have) and behaviours (expected to be);
- Providing opportunities for individuals to identify their own goals and develop their skills and competencies.

**Performance management objectives** – Align individual and organizational objectives – 64 per cent.

- Improve organizational performance.
- Improve individual performance.
- Provide the basis for personal development.
- Develop a performance culture.
- Inform contribution/performance pay decisions

**Types of objectives**

- Ongoing role or work objectives – all roles have built-in objectives that may be expressed as key result areas in a role profile.
- Targets – these define the quantifiable results to be attained as measured in such terms as output, throughput, income, sales, levels of service delivery and cost reduction.
- Tasks/projects – objectives can be set for the completion of tasks or projects by a specified date or to achieve an interim result.

**Criteria for objectives**

Many organizations use the following SMART mnemonic to summarize the criteria for objectives:

- S = Specific/stretching – clear, unambiguous, straightforward, understandable and challenging.

- M = Measurable – quantity, quality, time, money.
- A = Achievable – challenging but within the reach of a competent and committed person.
- R = Relevant – relevant to the objectives of the organization so that the goal of the individual is aligned to corporate goals.
- T = Time framed – to be completed within an agreed timescale.

**Criteria for reviewing performance**

The criteria for reviewing performance should be balanced between:

- Achievements in relation to objectives;
- The level of knowledge and skills possessed and applied (competences or technical Competencies);
- Behaviour in the job as it affects performance (competencies);
- The degree to which behaviour upholds the core values of the organization;
- Day-to-day effectiveness.

**Golden rules for conducting performance review meetings**

1. Be prepared. Managers should prepare by referring to a list of agreed objectives and their notes on performance throughout the year.
2. Work to a clear structure. The meeting should be planned to cover all the points identified during preparation.
3. Create the right atmosphere. A successful meeting depends on creating an informal environment in which a full, frank but friendly exchange of views can take place.
4. Provide good feedback. Individuals need to know how they are getting on. Feedback should be based on factual evidence.
5. Use time productively. The reviewer should test understanding, obtain information, and seek proposals and support
6. Use praise. If possible, managers should begin with praise for some specific c achievement, but this should be sincere and deserved.
7. Let individuals do most of the talking. This enables them to get things off their chest and helps them to feel that they are getting a fair hearing

8. Invite self-assessment. This is to see how things look from the individual's point of view and to provide a basis for discussion – many people underestimate themselves.
9. Discuss performance not personality. Discussions on performance should be based on factual evidence, not opinion.
10. Encourage analysis of performance. Don't just hand out praise or blame
11. Don't deliver unexpected criticisms. There should be no surprises
12. Agree measurable objectives and a plan of action. The aim should be to end the review meeting on a positive note.

**Dealing with under-performers**

The improvement of performance is a fundamental part of the continuous process of performance management. The aim should be the positive one of maximizing high performance, although this involves taking steps to deal with under-performance. The five basic steps required to manage under-performers are as follows:

1. Identify and agree the problem. Analyze the feedback and, as far as possible, obtain agreement from the individual on what the shortfall has been.
2. Establish the reason(s) for the shortfall. When seeking the reasons for any shortfalls the manager should not be trying crudely to attach blame. The aim should be for the manager and the individual jointly to identify the facts that have contributed to the problem. What needs to be determined is the Extent to which the reason for the problem is because the individual:
   - Did not receive adequate support or guidance from his or her manager;
   - Did not fully understand what he or she was expected to do;
   - Could not do it – ability;
   - Did not know how to do it – skill;
   - Would not do it – attitude.
3. Decide and agree on the action required. Action may be taken by the individual, the manager or both parties. This could include:
   - The individual taking steps to improve skills or change behaviour;
   - The individual changing attitudes – the challenge is that people will not change their attitudes simply because they are told to do so; they can only be helped to understand that

certain changes to their behaviour could be beneficial not only to the organization but also to themselves;

- The manager providing more support or guidance;
- The manager and the individual working jointly to clarify expectations;
- The manager and the individual working jointly to develop abilities and skills – this is a partnership in the sense that individuals will be expected to take steps to develop themselves but managers can give help as required in the form of coaching, training and providing additional experience.

4. Resource the action. Provide the coaching, training, guidance, experience or facilities required to enable agreed actions to happen.
5. Monitor and provide feedback. Both managers and individuals monitor performance, ensure that feedback is provided or obtained and analyzed, and agree on any further actions that may be necessary.

**Performance Management Cycle**

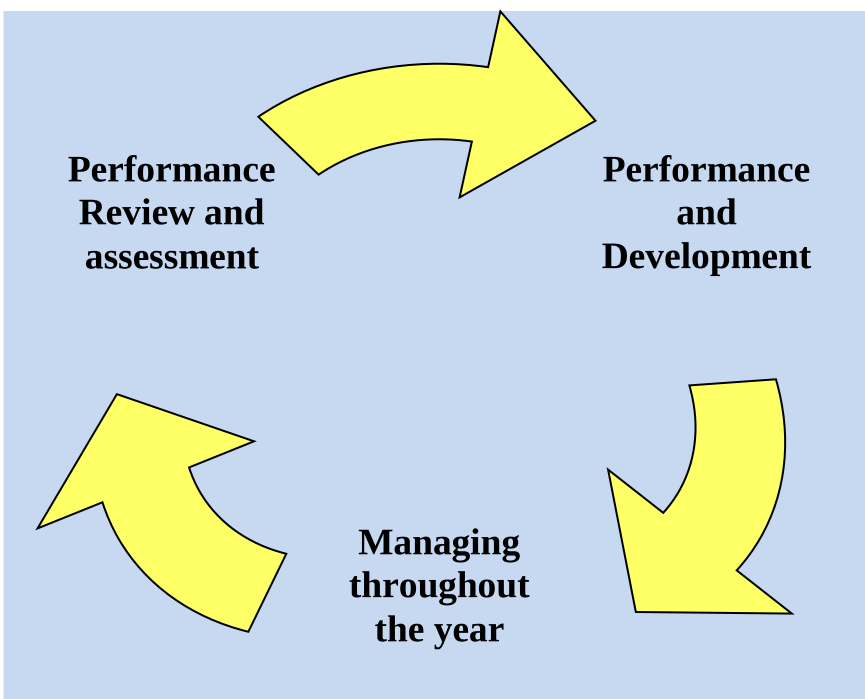


**Figure 9. Performance Management Cycle**

**HCM &REWARD MANAGEMENT**

**Reward –** defining what the organization wants to do in the longer term to develop and implement reward policies, practices and processes that will further the achievement of its business goals and meet the needs of its stakeholders.

**Reward management** is concerned with the formulation and implementation of strategies and policies in order to reward people fairly, equitably and consistently in accordance with their value to the organization. It deals with the development of reward strategies and the design, implementation and maintenance of reward systems (reward processes, practices and procedures) which aim to meet the needs of both the organization and its stakeholders.

Reward management is also concerned with those non-financial rewards that provide intrinsic and extrinsic motivation.

Intrinsic motivation is achieved by satisfying individual needs for achievement, responsibility, variety, change, influence in decision-making and membership of a supportive team.

Extrinsic non-financial motivation provided directly by the organization is achieved by recognition, kills, and development, learning and career opportunities.

**The aims of reward management**

- Reward people according to what the organization values and wants to pay for.
- Reward people for the value they create.
- Reward the right things to convey the right message about what is important in terms of behaviours and outcomes.
- Develop a performance culture.
- Motivate people and obtain their commitment and engagement.
- Help to attract and retain the high quality people the organization needs.
- Develop a positive employment relationship and psychological contract.
- Align reward practices with both business goals and employee values
- Operate fairly – people feel that they are treated justly in accordance with what is due to them because of their value to the organization
- Apply equitably – people are rewarded appropriately in relation to others within the

organization, relativities between jobs are measured as objectively as possible and equal pay is provided for work of equal value.

- Function consistently – decisions on pay do not vary arbitrarily and without due cause between different people or at different times.
- Operate transparently – people understand how reward processes operate and how they are affected by them.

**Types of Rewards**

**a) Intrinsic rewards:** intrinsic rewards as personally satisfying outcomes, and they include feedings of achievement and personal growth. It helps in satisfying higher needs; esteem, development.

**b) Extrinsic Rewards:** Extrinsic reward is outcomes supplied by the organization, and includes salary, status, job security and spring benefits. One can compare these rewards to the .context items that integrative factors are alternative typology for organizational reward as is the distribution between extrinsic and intrinsic rewards financial, materials and social rewards quality as extrinsic reward because they from the environment.

**c) Financial rewards** need to be considered from three points of view:

- The effectiveness of money as a motivator
- The reasons why people are satisfied or dissatisfied with their rewards.
- The criteria which should be used when developing a financial reward system.

**d) Non-monetary rewards** are more varied and unique than monetary rewards and other major advantages. They help meet employees' needs for recognition, growth and responsibility and most can be relatively inexpensive.

**Reward strategy** is a declaration of intent which defines what the organization wants to do in the longer term to develop and implement reward policies, practices and processes which will further the achievement of its business goals and meet the needs of its stakeholders. It provides a sense of purpose and direction and a framework for developing reward policies, practices and process. It is based on an understanding of the needs of the organization and its employees and how they can best be satisfied. It is also concerned with developing the values of the organization on how people should be rewarded and formulating guiding principles which will ensure that these values are enacted.

**Broad-brush reward strategy**

A broad-brush reward strategy may commit the organization to the pursuit of a total rewards policy. The basic aim might be to achieve an appropriate balance between financial and non-financial rewards. A further aim could be to use other approaches to the development of the employment relationship and the work environment which will enhance commitment and engagement and provide more opportunities for the contribution of people to be valued and recognized.

Examples of other broad strategic aims include:

- Introducing a more integrated approach to reward management – encouraging continuous personal development and spelling out career opportunities
- Developing a more flexible approach to reward which includes the reduction of artificial barriers as a result of over-emphasis on grading and promotion
- Generally rewarding people according to their contribution; 4) supporting the development of a performance culture and building levels of competence; and 5) clarifying what behaviours will be rewarded and why.

**Specific Reward Initiatives**

The selection of reward initiatives and the priorities attached to them will be based on an analysis of the present circumstances of the organization and an assessment of the needs of the business and its employees. The following are examples of possible specific reward initiatives, one or more of which might feature in a reward strategy:

- The replacement of present methods of contingent pay with a pay for contribution scheme;
- The introduction of a new grade and pay structure, eg a broad-graded or career family structure;

- The replacement of • an existing decayed job evaluation scheme with a computerized
- scheme which more clearly reflects organizational values;
- The improvement of performance management processes so that they provide better support for the development of a performance culture and more clearly identify development needs;
- The introduction of a formal recognition scheme;
- The development of a flexible benefits system;
- The conduct of equal pay reviews with the objective of ensuring that work of equal
- value is paid equally;
- Communication programmes designed to inform everyone of the reward policies and
- practices of the organization;
- Training, coaching and guidance programmes designed to increase line management capability (see also the last section of this chapter).

**ROLE OF HR IN HCM**

The knowledge and skills required within the HR function to implement and operate a full HCM programme are diverse and will differ between organizations and situations. However, the following list is a general framework of the requirements and demands that HR practitioners are increasingly required to deliver on.

- **Understanding of the business – its strategies and key drivers:** HR player requires new capabilities including strong analytical skills, empathy and sensitivity to understand business issues and powerful problem solving abilities.
- **An appreciation of how HR strategy interacts with the business strategy:** The most important aspects of human capital is that it acts as a bridging concept between HR strategy and business strategy, defining the link between HR practice and business performance in terms of assets rather than process.
- **Knowledge of the data:** HR practitioners do need sufficient knowledge of the need to be able to identify data that will enable them to measure organizational and individual performance and the

  Performance of HR. A wealth of information is available to HR in the form of performance data, salary details, training data, absence, retention, accident rates, etc, all of which can be generated at the touch of a button thanks to the extensive use of computerized HR information systems.

- **Understanding of what information managers need:** HR practitioners need to provide managers with information that has meaning for them and how they perform in their jobs. Human capital information provides HR practitioners with the tools to convince line managers of the value of implementing HR practice, and implementing it well, by demonstrating the impact and the value for them in terms of their own performance.
- **Knowledge of how to collect and analyze data:** HR people need sufficient understanding to appreciate how to comparing data collected from different systems or using different methodologies.
- **Skills in presenting data and reporting on the outcomes of analysis:** Being able to present their data in a way that will convince line managers and business leaders will need both presentation skills and influencing skills.
- **Skills in working as part of a management team:** HR people must develop the skills to work as part of this team, using strategic decision-making and influencing skills to put their case across and business skills and knowledge of the business processes to demonstrate how this impacts on the business.
- **Skills in working with the finance function:** HR practitioners do need at least to understand the language of finance and be able to express human capital information in a way that will have relevance. This means being able to justify investment in people management practice and the development of human capital in terms of return by identifying and articulating how this will be evaluated and how it relates to identifiable business drivers.

## THE BUSINESS PARTNER CONCEPT AND HCM

HR professionals carry out the roles of strategic partners, administrative experts, employee champions and change agents.

- ❖ **Employee advocate**– focuses on the needs of today’s employees through listening, understanding and empathizing.

- **Human capital developer**– in the role of managing and developing human capital (individuals and teams), focuses on preparing employees to be successful in the future.

- **Functional expert**– concerned with the HR practices central to HR value, acts with insight on the basis of the body of knowledge he or she possesses. Some practices are delivered through administrative efficiency (such as technology or process design), and others through policies, menus and interventions. It is necessary to distinguish between the foundation HR practices – recruitment, learning and development, rewards, etc, and the emerging HR practices such as communications, work process and organization design, and executive leadership development.

- **Strategic partner** – consists of multiple dimensions: business expert, change agent, strategic HR planner, knowledge manager and consultant, combining these to align HR systems to

  Help accomplish the organization's vision and mission, helping managers to get things done and disseminating learning across the organization.

- **Leader** – leads the HR function, collaborating with other functions and providing leadership to them, seeing and enhancing the standards for strategic thinking and ensuring corporate governance.

**THE SKILLS HR SPECIALISTS NEED FOR HCM**

**COMPETENCY FRAMEWORK FOR HR SPECIALISTS**

| | |
|---|---|
| Business and Cultural Awareness<br>(Business key activities, cultural norms and values) | Understands:<br>(1) The business' environment, the competitive pressures it faces and critical success factors.<br>(2) The business' key activities and processes and how these affect business strategies.<br>(3) The culture (core values and norms) of the business.<br>(4) How HR policies and practices can impact on business performance – puts this understanding to good use. |
| Strategic Capabilities | (1) Seeks involvement in business strategy formulation and |

| | |
|---|---|
| ( formulating business strategies and HR strategies) | contributes to the development of the strategy.<br>(2) Understands how HR can support the achievement of the business strategy.<br>(3) Contributes to the development of the business of a clear vision and set of integrated values.<br>(4) Develops and implements coherent HR strategies that are integrated with the business strategy and one another. |
| Organisational Effectiveness (Develop Resource capabilities, Process capabilities) | (1) Contributes to the planning and implementation of cultural change and organizational development programmes.<br>(2) Helps to develop resource capability by ensuring that the business has the skilled, committed and well-motivated workforce it needs.<br>(3) Helps to develop process capability by influencing the design of work systems to make the best use of people.<br>(4) Contribute to the development of knowledge management processes. |
| Internal Consultancy (Analyse and diagnosis of people problems and proposes practical solution) | (1) Carries out the analysis and diagnosis of people issues and proposes practical solutions.<br>(2) Adopts interventionist style to meet client needs; acts as catalyst, facilitator and expert as required.<br>(3) Uses process consultancy approaches to resolve people problems.<br>(4) Coaches clients to deal with own problems, transfers skills. |
| Service delivery (Anticipate cost effective HR areas) | (1) Anticipates requirements and sets up appropriate services to meet them.<br>(2) Provides efficient and cost-effective services in each HR area.<br>(3) Responds promptly and efficiently to requests for HR services, help and advice.<br>(4) Promotes the empowerment of the managers to make HR decisions but provides guidance as required. |
| Continuous professional development (benchmarking and Interventions) | (1) Continually develops professional knowledge and skills.<br>(2) Benchmarks good HR practice.<br>(3) Keeps in touch with new HR concepts, practices and techniques.<br>(4) Demonstrates understanding of relevant HR practices. |

**FUTURE OF HCM**

-  HCM is about “harnessing people measures to drive business performance‟
-  “Human capital management must be appreciated as a distinct measurement and investment-led business approach that recognizes and adjusts to traditional functional behaviours but asserts itself, nevertheless, as a central component of business planning and operations‟.
-  HCM data “informs and inspires the best policies‟.

**The future of HCM is dependent on:**

- The link between HCM and business strategy
- Defining the relationship between HCM and business performance
- Convincing senior management that it is important
- Understanding and fulfilling the needs of the investment community for beer information on intangible value
- Enlisting the interest and involvement of line management
- Convincing HR specialists that it is important and feasible
- Staging the development of HCM
- Developing HR skills in HCM
- Understanding what is meant by obtaining added value from people
- Understanding what is meant by regarding people as assets
- Selecting the measures
- Analyzing and evaluating the data
- External reporting that has value for investors and others and recognizes the value of human capital information.