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Measurement of Human Capital new Possibilities in Management

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ABSTRACT

In recent years there has been a dramatic shift in the way labour is pooled across the globe. The influences of technology and growth have effectively caused industry leaders to have to change their focus from the brute force of labour to the actual quality of the workers available throughout the world. This has produced a shift in tactics for those who manage Human Resources. Instead of gathering up workers in a huge net and sending them off to the fields and the factories, it is now necessary to nurture the working population by educating them and developing their technological skills so that they will be able to contribute to the needs of the enterprises they work for.

KEYWORDS :

INTRODUCTION

The value of an enterprise is made of physical assets, financial assets and intangible assets i.e. intellectual capital (IC). The physical and financial assets of a company like a piece of real estate or a credit note can be monetized. It means that there exist standard criteria for expressing their value in currency. But IC is mainly made of elements such as the quality of employees or the reputation of a brand among consumers for which there are no consensual model for monetary expression.

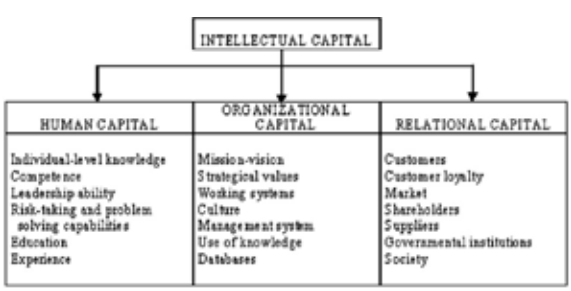
***Bozbura & Beskese (2005)* prefers a three-part definition of intellectual capital that includes human, relational, and organizational components (Fig. 1).**

The Human Capital (HC) is the individual-level knowledge that each employee possesses**,**

The Organizational Capital is the sum of all assets that make the creative ability of the organization possible,

The Relational Capital is the sum of all assets that arrange and manage the firms' relations with the environment. The relational capital contains the relations with customers, shareholders, suppliers, rivals, the state, governmental institutions and society.

***Components of Intellectual Capital* in Bozbura, Beskese & Kahraman (2007): Fig 1**



ORIGIN OF THE TERM 'HUMAN CAPITAL'

W. Lewis is said to have begun the field of Economic Development and consequently the idea of human capital when he wrote in 1954 the "Economic Development with Unlimited Supplies of Labour." The term 'Human Capital' was not used due to its negative undertones until it was first discussed by Arthur Cecil Pigou: There is such a thing as investment in human capital as well as investment in material capital. The use of the term in the modern neoclassical economic literature dates back to Jacob Mincer's article "Investment in Human Capital and Personal Income Distribution" in The Journal of Political Economy in 1958. The best-known application of the idea of "human capital" in economics is that of Mincer and Gary Becker of the "Chicago School" of economics. Becker's book entitled Human Capital, published in 1964, became a standard reference for many years. In this view, human capital is similar to "physical means of production", e.g., factories and machines: one can invest in human capital and one's outputs depend partly on the rate of return on the human capital one owns. Thus, human capital is a means of production, into which additional investment yields additional output. Human capital is substitutable, but not transferable like land, labour, or fixed capital.

MEANING OF HUMAN CAPITAL

Human capital refers to the stock of competences, knowledge and personality attributes embodied in the ability to perform labor so as to produce economic value. It is the attributes gained by a worker through education and experience. HC is a combination of assets possessed by individuals in, and by the collective workforce of, a firm. HC can encompass knowledge, skills and technical ability; personal traits such as intelligence, energy, attitude, reliability, commitment; the ability to learn, including aptitude, imagination and creativity; and the desire to share information, participate in a team and focus on the goals of the organization ***(Fitz-enz, 2000).*** Researchers have employed a large spectrum of variables -all signifying human capital: formal education, training, employment experience, start-up experience, owner experience, parent's background, skills, knowledge, and others.

HUMAN CAPITAL MANAGEMENT

It is important today that companies understand the value of increasing a labourer's output capability by investing in, and adding worth to, his or her abilities, rather than finding a mass of labourers who are willing to work yet who are unqualified to excel in today's highly technological business environment. Simply put, the idea is that, contrary to the old HR theory that emphasized people as the most fundamental asset to a company, *Human Capital Management* is focused on the right kind of people to get the job done.

Chou & Chow (2009) found for the presumed positive effects of both human capital and social capital on employment status among new arrivals in Hong Kong. Follow-up studies were underway to investigate the dynamic relationship between social capital and economic integration in this group of new arrivals, and whether social capital, especially friendship networks, played a more important role in the economic integration of new immigrants 1 or 2 years after arrival. Shih, Liu, Jones & Lin (2009) demonstrated that attitude was relatively the most important construct for professional core competency in the financial professions. Industrial and academic circles suggested that continuous learning was the most important indicator of measurement on key competency.

Klaas, Klimchak, Semadeni & Holmes (2008) found that rational accounts perspective that human capital service adoption differs according to the size of the SME, with smaller SMEs adapting to environmental pressures and constraints differently than larger SMEs. Abeysekera (2008) revealed that firms used disclosure to reduce tension between firms and their constituents, in the interest of further capital accumulation. Munch & Skaksen (2008) found that there was a weak negative direct effect of exporting on wages, but an interaction between export intensity and skill intensity had a positive impact on wages. The export wage premium was found but only in firms where the skill intensity was sufficiently high.

Bozbura, Beskese & Kahraman (2007) indicated that creating results by using knowledge, employees' skills index, sharing and reporting knowledge and succession rate of training programs were the four most important measurement indicators for the human capital in Turkey. Rudez & Mihalic (2007) suggested that Slovenian hotel management should improve IC by investment in human capital and information technology, both of which were connected to the urgent need for speeding up the process of direct distribution channels development in the category of end-customer-relationship capital, thereby directly influencing the financial performance of Slovenian hotel firms. Abeysekera (2006) indicated that through human capital management practices, this group of hotels engaged in value extraction rather than value creation as a way of maximizing the value of the firm. The study identified several possible reasons for this and presents a number of ways of encouraging value creation.

Batjargal (2006) found that the interaction of social capital and Western experience of entrepreneurs had a positive effect on the survival likelihood of Internet firms whereas the interaction of social capital and startup experience of entrepreneurs had a negative effect on firm performance. Zhu, Chew, & Spangler (2005) found that human capital enhancing HRM fully mediated the relationship between CEO transformational leadership and subjective assessment of organizational outcomes and partially mediates the relationship between CEO transformational leadership and absenteeism. Abeysekera & Guthrie (2004) found that Sri Lankan firms were more results driven in their assessment of Human Capital, emphasising the recognition of employee contribution to the firm and reporting on value added by employees. Australian firms seemed to be more process driven,emphasising the entrepreneurial qualities of employees and their work related knowledge.In as much as it was possible to generalise from this brief comparative analysis between Sri Lanka and Australia, it can be argued that the differences between Human Capital Reporting of firms located in developing and developed countries can be attributed to the differences in their political, social and economic institutional frameworks.

It is confirmed the strategic importance of human capital. Local government authorities that possessed strategic human capital namely, a workforce that is highly educated, that exhibits organization-specific competencies and experience, and that is valuable, unique, and imperfectly imitable-exhibited a better financial performance, as measured by a three-financial ratio scale over two years. Most important trends were outlined for personnel policies. This gave a standard for evaluating three actual forms or development levels of people management, namely Classic Personnel Management, Human Resource Management and Human Capital Management.

Some new ethos are suggested that volunteer employees need to adopt as they take greater personal responsibility for both developing and deploying their personal human capital by defining human capital as the composite of an individual's intellectual capital (knowledge, skills and expertise), social capital (structure and quality of relationship networks) and emotional capital (courage and resilience for taking action). Those entrepreneurs from higher socio-economic groupings had high endowments of human capital. Significantly, their businesses were characterised by greater profitability and growth potential. Human capital, interpersonal processes, and organizational demography were important factors in examining partner perceptions of firm profit and growth.

CONCLUSION

Although an organisation or business is a separate legal entity, its ceases to exist if it has no people - leaders, directors, members, employees - are required to maintain an organisation's existence. In a society which places a strong emphasis on competition, financial return and viability, the people issues can sometimes be neglected. Increasingly however, business and political leaders are starting to recognise that having good people who are skilled and motivated can make a significant difference. Competition is so fierce and change is so fast, that any competitive edge gained by the introduction of new processes or technology can be short-lived if competitors adopt the same technology. But to implement change, their people must have the same or better skills and abilities. To grow and adapt, the organisation's leadership must recognise the value and contribution of people. Treating money spent on people as an investment in an important asset is a far more appropriate mindset that treating such expenditure as an expense, to be kept to the minimum amount necessary.

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