



HUMAN CAPITAL MANAGEMENT – A SOCIETAL PERSPECTIVE

Management

Dr. V. Sivakumar Professor Cum Director, Jayam Group of Institutions, Dharmapuri, Tamilnadu.

Miss. C. Rekha Final year MBA, Jayam College of Engg & Tech, Nallanur, Dharmapuri, Tamilnadu.

ABSTRACT

HCM is quite a new area of people management, it gives a unique way to identify and quantify the value of human contribution to any organization. The biggest challenge is the intangible nature of measuring the contribution of individuals. The HCR provides a solution to this problem by given tools like Human Capital Operating Statement, People Flow Statement and Human Capital Productivity Report. In a similar fashion, in this paper we are going to analyse HCM for the Society.

KEYWORDS

HCM, HCR, HCPS, People Flow Statement, Human Capital Productivity Report, HCM for Society and Countries.

“One fine day Newton observed that an apple falls from the tree and lands down instead of flying up and a question arose WHY? The answer came in the form of theory of gravitational force” on a parallel analogy “One fine day a group of people questioned as to if Human Capital (the most important capital in an economy) can be quantified and the answers came in as Human Capital Reporting in the form of Human Capital operating statement, People flow statement and the Human capital productivity statement”.

The next question was if this can be replicated to a society, in this paper we have tried to analyse and provide answer to the above question. Before proceeding further let us understand the basics of HCM.

Introduction – What is HCM?

Human Capital refers to the intangible asset of organizations like Brand Value etc. It consists of the value that people add to an organization. Although it sounds quite simple but then the problem comes – can I measure it?

Like all intangible things it is also quite difficult to measure human capital; however after several attempts a few things were accepted which are now collectively termed as HCR – Human Capital Reporting and following are the components of the same

1. Human Capital Operating Statement
2. People Flow Statement.
3. Human Capital Productivity.

It can explained in simpler terms as to assigning a value in numerical terms to all the employees of an organization and analyzing them and their contribution, but then the next question arises that this is what we are doing in the performance appraisal cycles the answer is HCM is an enhancement over that is not a replacement of it.

Usually all the report cards of a company are in terms of Financial report such Balance sheet etc. In all those report cards we will not be in a position to assess the contribution of people, but by using HCR now that is possible to a great extent.

The next concern is that “Doesn't it makes HCM a mechanistic term where every thing is going to be measured in numbers” the answer is yes it is true to a large extent however it is not describing people as economic units but seeing them as a contributor to the success of an organization. Only if it can be measured then it can be managed effectively.

The biggest challenge of today's business is to understand the mechanism and the reasons why people add value to an organization.

The Importance and Relevance of HCM in today's economy.

1. In this new age economy where information is wealth there is always dearth and shortage of skilled manpower. Gone are the days when capital in terms of money used to be the biggest challenge i.e. getting money and managing it effectively, now the biggest challenge is to get the people and managing/ retaining them.

2. The causality of why certain people become big assets to organization and some become liabilities is still unknown; by using HCM we are trying to narrow that gap.
3. Many traditional organizations still view people as operating cost not as a source of value creation. They are always in a mode to minimize the cost rather than optimizing the cost of HRM.

There are important factors that make the human capital information Qualitative

1. Relevance-Information that has the ability to influence decision
2. Reliability-Information that is complete and faithful representation
3. Comparability – similarities and differences can be evaluated.
4. Understandability – The significance of the information perceived.

Let us now examine the components of HCR.

1. Human Capital operating statement: it is the financial equivalent of Profit and loss statement.

HUMAN CAPITAL OPERATING STATEMENT	
OPERATING INCOME	
Revenue	A
FTE	B
Revenue per FTE (R)	A/B
OPERATING COSTS	
Total Operating costs	D
People costs	E
Human capital Intensity (expressed as %)	(E/D)*100
OPERATING INCOME ATTRIBUTABLE TO HC (HCIR)	R*HCI
ANCILLARY PEOPLE COSTS	
Training & Development Costs	G
Recruitment costs	H
Health and safety costs	I
HR functional and related costs	J
Outplacement costs	K
TOTAL (T)	SUM(G+H+I+J+K)
APC Per FTE	T/B
HC LEVEAGE	HCIR/ (APC Per FTE)

2. People flow statement: This is equivalent of cash flow statement in finance.

PEOPLE FLOW STATEMENT	
STAFFING	YEAR – XYZ
No of full-time staff of year	A
Number of part-time staff at start of year (FTE eqv)	B
Number of other at start of year (FTE eqv)	C
TOTAL	(A+B+C)
STAFFING MOVEMENT	
Number of FTEs recruited in period (+)	D
Number of acquisitioned FTEs during period (+)	E
TOTAL	(D+E)

Number of voluntary leavers (FTE) in period (-)	F
Number of FTEs made redundant or out placed in period (-)	G
Number of FTE retirements in period (-)	H
Number of FTEs outsourced in period (-)	I
Full time equivalents (FTEs) at end of year	(D+E)-(F+G+H+I)
STATEMENT MISCELLANEOUS	
Mean tenure (year)	
Mean age of workforce	
Retirement population	

3. HUMAN CAPITAL PRODUCTIVITY STATEMENT – This is very similar to Balance sheet in financial terms.

HUMAN CAPITAL PRODUCTIVITY STATEMENT	
CONTRACTED RESOURCE	
Total number of FTE days contracted in year	A
Total number of FTE vacation days taken in year	B
TOTAL NUMBER OF CONTRACTED FTE DAYS AVAILABLE	A-B
WORK RESOURCE ADJUSTMENT	
FTE days gained through recorded overtime work (+)	
FTE days lost to illness (-)	
FTE days lost to work-related illness/injury (-)	
FTE days lost to industrial action (-)	
FTE days recorded as lost under miscellaneous (-)	
ACTUAL NUMBER OF CONTRACTED FTEDAYS WORKED	
PRODUCTIVITY	
HCI* Revenue per FTE day (optimal)	
HCI*Revenue per FTE day (actual)	
HCI*Revenue per FTE day differential	

These 3 are the primary ways of measuring the human capital in an organization, based on this data other forms can be developed and that is left to the user's discretion.

(Source : The above 3 formats is adapted from : Journal of applied Human Capital Management Volume 1 No 3)

From the above discussion is clear that organization Human Capital can be measured in a certain manner; let us now try to replicate the same for society or in broader terms for countries.

In the above 3 metrics of HCR, let replace revenue with GDP of a country, FTE with population above 18 and less than 60) the working population). People costs are the expenditure done by Ministry of HRD.

In ancillary costs let Training and development costs be replaced Costs of Education, Health and safety costs remain the same, HR functional costs and related costs remain the same. Outplacement costs would include the costs of brain. Let's remove the recruitment cost

HUMAN CAPITAL OPERATING STATEMENT FOR A COUNTRY	
	YEAR - XYZ
OPERATING INCOME	
GDP	A
Working Population	B
Earning Per Person (R)	A/B
OPERATING COSTS	
Total Operating costs	D
People costs	E
Human capital Intensity (expressed a %)	(E/D)*100
OPERATING INCOME ATTRIBUTABLE TO HC (HCIR)	R*HCI
ANCILLARY PEPOLE COSTS	
Education & Development Costs	G
Health and safety costs	I
HR functional and related costs	J
Brain Drain costs	K
TOTAL (T)	SUM(G+I+J+K)
APC Per Earning Person	T/B
HC LEVERAGE	HCIR / (APC Per FTE)

2. Similarly in people flow for the country, full time staff would be replaced by working population, No: of Part time will be replaced by Expatriate staff. In staffing movement no: of FTE's recruited will be replaced by no of People attain the age of working i.e. 18 this year, Number of acquisitioned FTEs during period would be replaced by no of expected expatriates who would join the work force.

PEOPLE FLOW STATEMENT	
STAFFING	
No of Working Population at start of year	A
Number of expatriates at the start of year	B
Miscellaneous	C
TOTAL	(A+B+C)
STAFFING MOVEMENT	
Number of People who would join the working population (+)	D
Number of expatriates expected (+)	E
TOTAL	(D+E)
Number of voluntary retirees (-)	F
Number of people made redundant or out placed in period (-)	G
Number of retirements in period (-)	H
Number of immigration in period (-)	I
Working population at end of year	(D+E)-(F+G+H+I)

4. In the final metrics of measuring the Human Capital Productivity the following changes ate to be made.

HUMAN CAPITAL PRODUCTIVITY STATEMENT FOR A COUNTRY	
CONTRACTED RESOURCE	
Total number of working in a days in year	A
Total number of Holidays declared (unexpected)	B
TOTAL NUMBER OF WORKING DAYS AVAILABLE	A-B
WORK RESOURCE ADJUSTMENT	
Working days gained through compensatory working day (+)	
Working days lost to natural calamities (-)	
Working days lost to Political Turbulence (-)	
Working days lost to industrial action (-)	
Working days recorded as lost under miscellaneous (-)	
ACTUAL NUMBER OF WORKING DAYS WORKED	
PRODUCTIVITY	
HCI* Earning Per Person	

Conclusion:

To measure Intangibility is like measure space and vacuum. This is only a humble beginning and the above mentioned two metrics of measuring Human Capital for a country is debatable and can be enhanced in the future. It provides a rough estimate of the value of Human Capital that a nation posses. Each of the components in the metrics have many sub components which would differ from country to country, this is only a skeleton on which different system of measurement of human capital can be built. Again this is only a beginning not an end. My measuring we can get hold of methods to improve them.

Although many economists and other people feel why we need new systems of measurement when the old ones are working fine, we would like to say that this is an enhancement over it tomorrow some other new metrics of measurement will emerge and soon this is might be written off.