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A Theoretical Review On Human Capital Management

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Abstract:
The purpose of this paper is to contribute to the understanding of human capital management. The paper reviews the theoretical and empirical human capital literature. The framework developed will assist researchers and practitioners in the identification and exploration of variables linked to the effective management of Human Capital within organisations. It is concluded that managers of organisations need to understand the complexity of managing Human Capital and must combine their HRM strategy with their KM strategy to leverage their human capital. This paper further examines different definitions of Human Capital Management, Concept, constituents, significance, need and approaches to measurement.

Key Words: *Concept, constituents, Significance of HCM, need of HCM and Approaches to Measurement of Human Capital Management, Business Strategy.*

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I. Human capital Management Defined:

Obtaining, analyzing, and reporting on data that guides strategic, financial, and operational choices at the corpor ate and frontline management levels is the focus of human capital management (HCM).
As Kearns (2005) stressed, everything ultimately comes down to value.

HCM is concerned with intentional measurement rather than merely measurement.The use of metrics t o direct a management strategy that views employees as assets and emphasizes that competitive advantage is gai ned by making strategic investments in those assets through employee engagement and retention, talent manage ment, and learning and development programs is what distinguishes HCM from other management practices.HC M acts as a link between corporate strategy and HR.

II. The concept of human Capital:

People produce, hold onto, and employ knowledge and skills (human capital), as well as develop intelle ctual capital.Their contacts with one another (social capital) contribute to the institutionalized knowledge that an organization has (organizational capital), which in turn enhances their understanding.
These concepts of human, intellectual social and organisational capital are explained below:

III. Human Capital:

Human capital is made up of the knowledge, skills, and competencies of the people working for a company.
According to Schultz (1961), who coined the phrase, "consider all human abilities to be either innate or acquired ," all human abilities are either innate or acquired.Human capital is one of the qualities that is valued and can be increased by prudent investment. The following definition was proposed by Bontis et al. (1999) in more depth.

Human Capital defined , Bontis et al (1999)

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

Scarborough and Elias (2002) believe that: 'The concept of human capital is most usefully viewed as a bridging concept –that is, it defines the link between HR Practices and business performance in terms of assets rather than business processes.' They point out that human capital is to a large extent 'non-standardized , tacit , dynamic, context dependent and embodied in people'. These characteristics make it difficult to evaluate human capital bearing in mind that the 'features of human capital that are so crucial to firm performance are the flexible and creativity of individuals, their ability to develop skills over time and to respond in a motivated way to different contexts."

IV. The Constituents of human capital:

Human Capital consists of intellectual, social and organisational capital.

V. Intellectual Capital:

The general concept of intellectual capital, which is characterized as the knowledge flows and stocks a vailable to an organization, is linked to the idea of human capital.These can be thought of as the intangible resou rces connected to people that, along with the tangible resources (cash and physical assets), make up the market v alue or overall worth of a company.Intangible resources are defined by Bontis (1998) as the elements other than money and physical assets that a company can manage and that contribute to its value-creating operations.

VI. Social Capital:

Another component of intellectual capital is social capital.It is made up of information gleaned from ne tworks of connections both inside and outside the organization.Outnam (1996) defined social capital as "the char acteristics of social life—networks, norms, and trust
that enable participants to act more effectively together to pursue shared objectives."
Social capital considerations, or the manner in which knowledge is created through interpersonal interaction, mu st be taken into account.
Bontis et al. (1999) note that both flows and stocks are important.People working together play a crucial role in t he development and evolution of intellectual capital across time.

VII. Organisational Capital:

According to Youndt (2000), organizational capital is the institutionalized knowledge that a company h as and that is kept in databases, manuals, etc.It is frequently referred to as "structural capital" (Edvinson and Mal one, 1997), but Youndt prefers the word "organisational capital" since, in his opinion, it more clearly expresses t hat this is the knowledge that the organization genuinely possesses.

VIII. The Significance of human capital theory:

Human capital theory emphasizes the value that individuals may give to an organization.
It emphasizes that investing in people by organizations will yield worthwhile results and views people as assets.
According to Barney (1991), the resourcebased view of the firm and human capital theory go hand in h and.This suggests that a firm achieves a durable competitive advantage when it has a human resource pool that c annot be replicated or replaced by its competitors.This circumstance is referred to as one that offers "human capi tal advantage" by Boxall (1996).He does, however, add (1996,1999) that it is important to distinguish between " human capital advantage" and "human process advantage."The former comes from hiring individuals with know ledge and abilities that are very competitively advantageous, most of it tacit.
However, the latter results from the establishment of sophisticated, challenging-to
copy processes within the company, like crossdepartmental collaboration and executive growth.Therefore, "hum an resource advantage"the superiority of one firm's labor management over that of anothercan be viewed as the r esult of its advantages in terms of both human capital and human process.

IX. Human capital theory helps to:

1. Determine how people affect the company and how they contribute to shareholder value;
2. Show that HR procedures are costeffective, as shown by, for instance, the return on investment;
3. Offer suggestions for upcoming HR and business strategies;
4. Provide information that will guide the development of procedures and initiatives aimed at enhancing the ef ficiency of people management inside the organization.

X. Human Capital Measurement

IDS (2004) defined human capital assessment as "about determining links, correlations, and, ideally, ca usation, between different sets of (HR) data," using statistical methods. As stressed by Becker et al (2001)

The most potent action HR managers can take to ensure their strategic contribution is to develop a management system that convincingly showcases HR's impact on business performance. They must understand how the firm creates value and how to measure the value creation process.

HCM's main goal is to evaluate how human resource management methods and individual employees a ffect an organization's performance.
Therefore, techniques for evaluating impact and contribution based on information on human capital must be cre ated.

XI. The need for human capital measurement:

There is a compelling argument in favor of modernizing ways of valuing human capital as a tool for de cision-making in human resource management.
They might entail figuring out the main factors affecting people management and simulating the results of chang

ing them.The need is to create a framework within which trustworthy data, such as added value per employee, pr oductivity, and measurements of employee behavior, can be gathered and analyzed.

Backer et al. (2001) discuss the necessity for HR and other executives to adopt a "high-performance perspective" in which HR is seen as an integrated part of the bigger system for the firm's strategy i mplementation.

According to them, "The firm manages and evaluates the link between the performance of these two sy stems and firm performance."

XII. Approaches to measurement

Three approaches to measurement are described below.

The human capital index-Watson Wyatt

Watson Wyatt (2002) identified four primary types of HR practice that might be linked to gains in shar eholder value generation based on a survey of businesses that had connected together HR Management Practices and market value.

Which are: Total compensation and responsibility 16 and 5 percent Collegiate, adaptable workforce 9.0% Excellence in hiring and retaining employees 7.9% 7.1% of communication is accurate.

The organisational performance Model-Mercer HR Consulting

According to Nalbantian et al. (2004), the organizational performance model created by Mercer HR Co nsulting is based on the following components: people, work processes, management structure, information and knowledge, decision making, and rewards. Each of these components manifests itself in the context of the organ ization in a different way, giving it a distinct DNA.Human capital is likely not being utilized to its full potential if these components were developed piecemeal, as is frequently the case, which presents prospects for significan t improvements in returns.The measurement of an organization's human capital assets and the management pract ices that influence their performance is necessary to find these possibilities.

The statistical method called "Internal Labour Market Analysis" that Mercer uses analyzes actual employee exp erience as opposed to stated HR programs and policies. It does this by continuously collecting employee and lab or market data.As a result, discrepancies between what is needed in the workforce to meet corporate objectives a nd what is really being delivered might be found.

The human Capital Monitor-Andrew Mayo

The "human capital monitor" was created by Andrew Mayo (2001) to measure an organization's "huma n asset worth," which is equal to employment cost times individual asset multiplier.

The latter is a weighted average evaluation of competence, growth potential, personal performance (contribution), and alignment to the organization's values set in the context of the workforce environment (i.e. how leadership , culture, motivation, and learning are fostering success).The exact number is unimportant.What matters is that t he process of measurement prompts you to ask whether human capital is adequate, growing, or declining and ide ntifies problems that need to be fixed.

Mayo suggests focusing on a few organizationwide measurements that are essential to generating share holder value or attaining current and future organizational goals rather than adopting a lot of different tactics.

Mayo (1999, 2001) highlighted more areas for measurement and techniques for doing so.Value added p er person, in his opinion, is a useful indicator of the efficacy of human capital, particularly when comparing firm s.But he believes that an organization's level of competence is the most important determinant of the value of its human capital.

According to him, this might be examined in light of the defined organizational core competencies.He also lists l evels of attrition and absenteeism along with satisfaction measurements gathered from staff surveys.

XIII. Conclusion on HCM:

It is crucial to emphasize the idea of HCM as a journey, as Baron and Armstrong (2007) point out.It's n ot a win at all costs situation.It is not necessary to have access to a cuttingedge HR database or to have highly de veloped statistical analysis skills.Basic data may be recorded and reported on with relative ease, and while some analytical expertise is needed, it is to be hoped—or even expected—that any self-respecting HR professional will possess that ability.

An organization may not do anything more than gather basic HR information in the beginning of the jo urney, such as employee turnover and absence rates.However, anyone who goes a step further and analyzes the data to identify patterns and causes and then makes recommendations for the appropriate course of action that ar e supported by that analysis is not an HCM.It may not be significantly, but it is a start.

The more complex approaches to HCM used by companies like Nationwide and the Royal Bank of Scotland are at the other end of the spectrum. Even if this might be HCM's ultimate goal, it is possible to get there in stages.

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