

The importance of human capital measurement in the organization development

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It is now commonly accepted that the value of organizations is expressed by a mixture of tangible assets in the form of equipment, money or land or other physical objects and intangible assets in the form of brand, reputation, knowledge and or course people. In other words, there are many forms of capital that make up the real value of a business and in an increasingly knowledge-based economy, human capital is fast becoming the most important. However, despite a number of academic models and theories the evaluation of human capital is still difficult for most companies. There are a number of reasons for this.

The contribution of people is difficult to isolate from other factors such as the economic situation, market forces and fashion. The value of people is expressed in qualitative rather than quantitative terms which make it difficult to represent in traditional accountancy models. HR data is more often collected for administrative rather than evaluation purposes. HR managers do not always have the skills to interpret data to evaluate the contribution of people to business performance.

These difficulties have been further compounded by the numerous definitions of human capital over the years. In fact the term is still hotly debated as to whether it is appropriate to equate people in the same terms as other inanimate forms of capital. However, the term has now become common in Human Resource management language to describe people and their collective skills, abilities, experience and potential.

It's helpful to describe human capital as one of three elements to make up intellectual capital. Intellectual capital describes the knowledge assets that are available to the organizations and is a large part of intangible value. It can be described as:

- Human capital is the knowledge, skills, abilities and capacity to develop and innovate possessed by people in an organization.
- Social capital is the 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
- Organizational capital is the institutionalized knowledge possessed by an organization which is stored in databases, manuals etc. This would also include HR policies and processes used to manage people.

In order to be effective, organizations must be able to understand the relationships between these different forms of capital. Human capital alone will not create value. People have to be motivated and managed by the use of good HR practice and given the opportunity to develop and use their skills to create goods and services which can be sold. If the knowledge they are creating cannot be embedded in goods and services that are in demand, then this human capital will have no value to the business.

Once people have been recognized as assets, it then becomes important to be able to quantify the value of this asset. This is vital for informed decision making about how to manage and maximize the return on investment. Most human capital measurement has been designed with the aims of proving the value of people - assessing the impact of human resource management practices and the contribution of people to bottom-line performance.

Measurement is notoriously difficult because the things that human capital is likely to influence such as customer satisfaction, innovation and service delivery are at the mercy of numerous other contextual factors. Whereas it can be relatively easy to collect data to describe the

workforce and the prevalence of certain practices, particularly where sophisticated human resource information systems exist, it is more difficult to develop credible and reliable measures and decide what the measures will tell us.

Human capital therefore represents the fit between the demand for and supply of human capabilities. Organizations will not value and therefore not measure aspects of employee behavior or capability which they cannot use in the pursuit of their business objectives. At organization level, therefore, the contribution of human capital is contingent on the supply and relevance of employee competencies to the business needs of the organization as determined by its strategy. This context-dependent quality makes it impossible to identify a standard set of measures which will be relevant and applicable in all circumstances.

Measurement can be regarded as a way of analyzing and interpreting data which already exists. For example, if a measure of organizational capability is a desirable outcome, then performance management data, training data or skills data may be used to achieve this. In this case, how the existing data is used and interpreted rather than how it is collected will determine the outcome measure. In some cases the data itself may be an outcome of measurement. For example, data on absenteeism is usually the result of an effort to measure absenteeism.

There are many different types of data which can be useful in measuring human capital. Generally these fall under the following headings:

- demographic data: data on the composition of the workforce, age, gender, ethnicity
- recruitment and retention data: data on number of applications for vacancies, number of people leaving, length of service, numbers of vacancies, length of time to fill vacancies
- training and development data: number of days training given, money spent on training, types of training given, length of time to reach competence levels, data on training needs
- performance data: performance management data, productivity and profitability data, targets set and met, levels of customer satisfaction, customer loyalty
- opinion data: data from employee attitude surveys.

There is now a great deal of evidence that the contribution of people is the largest driver of organizational performance. Systematically collecting, analyzing and communicating information on the value of this contribution is vital and will assist in the design and implementation of HR policies and practices that will maximize the impact on business performance. However, all of our research to date indicates that human capital is highly contextual and therefore no single measure or set of measures can adequately convey its value. Organizations need to decide what measures are relevant to them and what will give them the information they need to effectively communicate the value and contribution of human capital both internally and externally.

References

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