



Human Capital

Most Valuable resource

Nirmal K.Bhardwaj; CEO

BTech(Hons), IIT Kgp; PGDM, IIMA



Contents

1. Title.....	1
2. What is Human Capital.....	3
3. Human Capital (ROI).....	3
4. Methods of valuation of Human Capital.....	3
5. Importance of human capital.....	4
6. Enhancing of Human Capital.....	4
7. Human Capital and Organizational performance.....	5
8. Nurturing Human Capital.....	5
9. Development of Human Capital.....	6
10. Challenges in Development of Human Capital.....	6
11. Volatility of Human Capital.....	8
12. Various Entrepreneurship Accelerators in Karnataka.....	8
13. Volatility of Employee work engagement.....	9
14. Learning organizations.....	.9
15. Intellectual Property Rights9
16. Quality vs. Quantity9
17. Equality and diversity in the workplace.....	9
18. Interplay of Tech and Human Capital.....	, 10
19. Conclusion.....	10



2. What is 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.

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.

3. Human Capital (ROI)

The human capital ROI is the main measurement of human capital that business owners use to compare an employee's value to their expenses.

Human capital ROI (return on investment) is a ratio that shows you how much your business earns compared to employment costs. You can use this to see how much is returned for every dollar invested.

Employment costs can include things like salaries, health insurance premiums, retirement plan contributions, and education assistance.

4. Methods of valuation of Human Capital

4.1 Historical Cost Method: This method is based on costs incurred or recruitment, training, familiarization etc. It is developed by Rensis Likert. This is a very simple method based on traditional principles of accounting. Under this method an attempt is made to have a proper match between cost and revenue.

4.2 Replacement Cost Method: Under this method the replacement cost of existing personnel is estimated. Replacement cost includes the cost of recruitment, training and opportunity cost for the intervening period. This serves the purpose of making valuation of human resources periodically. It helps in planning for human resources in future. The difficulty in this method is that the value differs from person to person making it difficult to find identical replacement of the present human assets.

4.3 Economic Value Method: The payment made to the human resources till their retirement are calculated and appropriately discounted to get their present economic value.

4.4 Standard Cost Method: This method is in improvement over replacement cost method. Under this method the standard costs of recruitment, training and development are developed and established every year to overcome complications in calculations. These costs represent the value of human resources for accounting. It is easy for implementation and control.



4.5 Present Value Method: Under this method the net contributions of employees to the earning of the organization are discounted to have present value of human resources.

4.6 Current Purchase Power Method: In this method the historical costs are converted into current purchasing power of money with the help of index numbers.

4.7 Opportunity Cost Method: Under this method the value of human asset is determined in their alternative use or the next best alternative use. This value forms the basis for valuation of human asset of organisation. For calculation of opportunity cost bidding method is used. But it is difficult to decide bid or offer

5. Importance of human capital

5.1 Structural unemployment. Individuals whose human capital is inappropriate for modern employers may struggle to gain employment. A major issue in modern economies is that rapid deindustrialization has left many manual workers, struggling to thrive in a very different labour market.

5.2 Quality of employment. In the modern economy, there is increasing divergence between low-skilled, low-paid temporary jobs (gig economy). High-skilled and creative workers have increased opportunities for self-employment or good employment contracts.

5.3 Economic growth and productivity. Long-term economic growth depends increasingly on improvements in human capital. Better educated, innovative and creative workforce can help increase labour productivity and economic growth.

5.4 Human capital flight. An era of globalization and greater movement of workers has enabled skilled workers to move from low-income countries to higher income countries. This can have adverse effects for developing economies who lose their best human capital.

5.5 Limited raw materials. Economic growth in countries with limited natural resources, e.g. Japan, Taiwan and South East Asia. Rely on high-skilled, innovative workforce adding value to raw materials in the manufacturing process.

5.6 Sustainability. "what we leave to future generations; whether we leave enough resources, of all kinds, to provide them with the opportunities at least as large as the ones we have had ourselves" (UN, 2012)

6. Enhancing of Human Capital

6.1 Team brings success to any company and therefore it is a great idea to build bond and strengthen them with some team development ideas and games. Yes, conduct such games in which team support plays an essential role. This is another way to development of human capital development in an organization.

6.2 Conduct performance test and judge who can work well in pressure and who cannot. This will help in finding the most useful resources for your company.

6.3 Providing incentives on good performance can enhance their enthusiasm and they can work more well than before with an objective to attain incentives.



6.4 Young minds do more well for any company as they have sharp minds and new ideas as per scenario. So, enhance those young minds and let them come up with new ideas. This is all possible only when you will convince them that they are at the best place in world where they can enhance themselves personally and professionally. Conduct those programs which are integrated with a learning framework and emphasize on achieving goals. There are companies that conduct both indoor and outdoor activities, which relates to your business and also render benefits to those young minds.

6.5 In addition, conduct expeditions, adventure camps and more that will surely be fruitful to you and your human capital development.

7. Human Capital and Organizational performance

In the most basic terms, all businesses must have capital in order to keep their firm going. Bank account, shares, assets and so forth are considered capital but among them all their also lies human capital. Humans utilize all the above-mentioned capitals and carry out the operation of the firm so the importance of human capital investment can be seen from these factors that a firm that has more trained and skilled employees can perform better and produce more results than from a firm that has less human capital comparatively. In other words human capital is a major role player in performance of a firm. The association of human capital with performance is established on two theoretical basis. The first is the based on the resource view and the second is the expectancy theory of motivation which represents three elements: (1) the value linked to the rewards,(2) the belief that the employee will be rewarded upon reaching a certain level of performance and(3) the belief that the employee can achieve the certain level of performance in actual.

8. Nurturing Human Capital

8.1 Know your Human Capital's ROI

Just like any other asset, it is important to know whether or not you are getting a return on your investment (ROI).

“Investment on Human Capital” here refers to the amount of money your organization has put in to develop its human capital; i.e. recruitment and selection, training and development, compensation, etc...

8.2 Analyze your Human Capital

The analysis should include at least three parts: an organizational analysis, an operational analysis, and a person analysis.

The operational analysis is what you expect from the operations of the business in terms of output; sales, goods, service, employees' behavior, etc. The person analysis, on the other hand, is what you actually have at this specific moment. As for the organizational analysis, it identifies the organization's objectives, strengths, constraints, and limitations.

With the information you have acquired from your operational and person analyses, you will be able to clearly identify the gap in the organization's performance. From the organizational analysis, you will be able to determine which aspect of the gap requires the most attention, and how it can be resolved effectively and efficiently.



Armed with your analyses and information, you will now be able to attack the issue of developing your human capital.

8.3 Develop your Human Capital

When trying to develop your human capital, there are at least two things you must ensure: that knowledge is being transferred to your employees, and that your employees are actually motivated to learn them. Without these two components, your time, money, and efforts spent into the development will be in vain.

8.4 Evaluate your Human Capital's Development

The most often neglected step yet the most important for stakeholder: Evaluating your human capital's development. When evaluating any HR initiative, it is important to consider the 5 C's: Compliance, Customer Satisfaction, Culture Management, Cost Control, and Contribution.

Compliance

It is crucial to ensure that any and all HR initiatives comply with laws and legislation, including developing your human capital. Make sure that you inform your employees of their rights and obligations, and that you avoid legislative issues, such as discrimination.

Customer Satisfaction

The customer here is not the organization's clients, but the employees who are being subjected to your developmental efforts. Formal or even informal surveys and questionnaires provide constructive feedback for both the organization and its employees.

Culture Management

The importance of culture management rests in the following premise: an organization's culture affects its employees' attitudes, which in turn affects their behavior, which then affects their performance and the organization's overall success. Assess your employees' attitudes towards the organization's culture and developmental activities to ensure that effective communication is taking place.

Cost Control

It is pertinent that your human capital development is efficient in terms of costs. Analyze, assess, and evaluate development needs, your organizational strategy, and your employees to capitalize on your expenditures.

Contribution

Are your developmental activities contributing to your company's bottom line? Ensure that your human capital development is effective, and that it is directly contributing to your organization's overall success. Provide your trainees with relevant, motivating, and effective training that can transform into desired behaviors and be reflected in the bottom line.

9. Development of Human Capital

Human capital development is the process of improving an organization's employee performance, capabilities and resources. If a manager or human resources department were to



ask, "What can be done to make employees more productive?" the answer would be considered to fall within the scope of development. Being diverse and comprehensive, human capital development can range from on-the-job training to tuition assistance to team-building activities-not only along any given spectrum (in terms of quantitative and qualitative commitments), but also along multiple spectrums, such as skill development, project management and morale building.

Human capital development is vital to the growth and productivity of the organization. The people that make an organization run are an asset to be invested in. If they can become more productive on an individual level through development, the organization in turn will begin seeing productivity gains. In addition, it is sometimes much more cost-effective to develop the people already employed by the organization than it is to recruit and train new people. Further, employees feel more empowered when their organization invests in them, and they feel better about staying with an organization that shows a promising career path and concern for maximizing employee potential and satisfaction.

10. Challenges in Development of Human Capital

10.1 Managing Workforce Diversity:

An important challenge that human resource managers face involves workforce diversity, i.e., the increasing heterogeneity of organisations with the inclusion of employees from different groups such as women, physically disabled persons, retired defence personnel, backward classes, ethnic groups, etc.

10.2 Meeting Aspirations of Employees:

There has been a rise in the proportion of employees in today's industries who belong to the younger generations whose aspirations are different from those of the earlier generations. Today's workers are more careers oriented and are clear about the lifestyle they want to lead. Considerable changes have been noted in the career orientation of the employees.

10.3 Empowerment of Employees:

There has been a general change in the profile of workforce in industrial and other organisations. The organisations in future will get better qualified and career oriented young employees. The proportion of professional and technical employees will also increase as compared to the blue collared employees.

10.4 Management of Human Relations:

Management of human relations in the future will be more complicated than it is today. "Many of the new generation of employees will be more difficult to motivate than their predecessors. This will in part be the result of a change in value system coupled with rising educational levels. Greater skepticism concerning large organisations and less reverence for authority figures will be more common. Unquestioning acceptance of rules and regulations will be less likely."

10.5 Dynamic Personnel Policies and Programs:



The Human Resource Manager of tomorrow will not only look after personnel functions, but will also be involved in human resource policies and programs for the entire organisation. Similarly, human resource management is not merely going to be an exclusive job of the HR Manager, but every executive in the organisation would be made responsible for the effective management of people in his unit.

10.6 Building Responsive Organisation:

The Human Resource Manager will have to contribute tremendously to the building up of responsive organisation. Creating adaptive customer-oriented organisation would require soliciting employees' commitment and self-control and encouraging empowerment of employees.

10.7 Creating Dynamic Work-Culture:

The human resource manager will have to mobilise a new work ethic so as to assist the top management in setting up and enforcing quality standards. Greater efforts will be needed to achieve group cohesiveness because workers will have transient commitment to groups.

10.8 Building Core Competence and Creating Competitive Advantage:

The human resource manager has a great role to play in developing core competence by the firms. A core competence is a unique and unimitable strength of an organisation which may be in the form of human resources, marketing capability, or technological capability. If the business is organised on the basis of core competence, it is likely to generate competitive advantage.

10.9 Outsourcing HRM Functions:

These days, many organisations are outsourcing routine HRM functions so as to focus on strategic HR issues that affect corporate performance and shareholder value. The HRM functions which are of routine type and can be safely outsourced include recruitment, selection, compensation, job evaluation, training, etc. Outsourcing of such functions would enable the management pay greater attention to core business activities.

11. Volatility of Human Capital

Volatility of Human Capital refers to How many employees are fired and hired per month. The **fluctuation** rate is the number of people that left + the number of people hired divided by the total number of people.

12. Volatility of Employee work engagement

Work engagement is a dynamic state and can change over time. Several researchers analyzed the period-of-time in which work engagement levels change. The variations can occur, for instance, in an intense period-of-time with an impact on work performance. It may be daily or weekly



13. Investments by organisations in Human Capital

Enterprises become increasingly aware that proper investment into human capital can have a significant impact on their performance, which of course also affects their competitiveness. The corporate culture exactly offers the greatest source of competitive advantage of enterprises. Continual adaptation to changing market conditions attracts businesses to invest their energy and finance to staff by improving their competencies. Businesses improve their human capital and consequently increase their psychological and professional assets by investing into human potential of individuals by improving their skills and competencies. There exist various ways of investment into human capital. Businesses can invest in general human capital, which is an investment into specific or general training that enables acquisition of general knowledge usable in various companies. This results in higher future expected return of investment. The second option of investment into human resource is to invest in specific human capital. Specifically, it is investing in the improvement of specific competencies and skills for a particular job. This form of investment is less risky in terms of staff turnover as the use of specific knowledge is less likely to be used in other companies.

14. Learning organizations

Learning organizations [are] organizations 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 to see the whole together.

15. Intellectual Property Rights

Intellectual **Property Rights** are legal **rights** governing the use of creations of the human mind. The recognition and **protection** of these **rights** is of recent origin. Patents, designs and trademarks are considered as industrial **property**.

16. Quality vs. Quantity

All employees need to provide value to the organization every day. True value is measured by results not just busy work. **Quality** work is more valuable than **Quantity** work. As leaders, we need to model this value-driven behavior to help our employees succeed.

17. Equality and diversity in the workplace

Equality and diversity in the workplace is a sensitive issue but one which must be taken seriously. Treating employees fairly regardless of their age, gender, race and other characteristics is central to business ethics and effective people management.

The role of an equality and diversity policy is to help prevent discrimination against employees, and provide a platform for staff that have been subjected to discrimination, or believe they have witnessed discrimination to raise the issue with their employer and be assured that the issue will be taken seriously.

Regardless of their identity or background, employees deserve to develop their skills and talents in a safe, supportive and inclusive environment.



The Equality Act 2010 makes it unlawful to discriminate against employees because of nine factors: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation. These characteristics are termed 'protected characteristics' by the Equality Act.

18. Interplay of Tech and Human Capital

Technology is not only changing the way we work, think and interact, but also the way we live. It is so encompassing. Technology interface is dictating the way we communicate and interact in our lives and at our workplaces. At the workplace

At the workplace, technology is considered to be the key to growth and progression. However, we also have another very important element of growth which is employer-employee 'happy' quotient. It is imperative for an organization's Human capital. to position technology strategically to extract more value through each of their business processes. Creating a strong brand identity by attracting brilliant and tech-savvy of factoring in technology interplay in building the brand and its employee competitiveness.

Eventually what we see is that, there are numerous tasks and processes being bucketed under the vast umbrella of HR. At this time, technology seems to be playing a bigger role leading to a few growing trends which are disruptive in nature; but are impacting organizations positively

19. Conclusion

Human capital and economic growth have a strong correlation. Human capital affects economic growth and can help to develop an economy by expanding the knowledge and skills of its people.