

Managing Performance

Week 5

Human Capital & Contemporary Society

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Definitions:

Capital = usable, productive resources, all forms of assets and capabilities that can be harnessed for human development.

Human Development = increasing human welfare, well-being and human capital (possibly increasing human freedom and creativity)

Several forms of capital introduced by A. Smith:
Land, building, machinery and human abilities.

Definition 2:

We define: *natural* (including physical and biological), *human* (including social and cultural, of course including scientific etc – **notably**: *ideas, individuality, values, etc*), *financial* and *all other human made capitals* .

Anything becomes a resource (only) when its potential value is recognized by the human (mind). E.g. air is a resource regardless whether humans are aware of it.

“Economics is not about goods and services, it is about human choice and action.” (L. von Mises)

Individuality

... is a product of human mental development, of social organizations, institutions and of a cultural sphere, imparting knowledge, skills and values, making available to each member the cumulative advances of the collective, and providing freedom and opportunity for unique individual characteristics to develop.

Individual in History (S. Korolev vs N.S. Khrushchev
“Soviet people made Sputnik”)

Through individual-society-culture interaction human capital can be augmented, destroyed, misused and wasted.

Individual & collective human capital

The constant interaction, exchange, mutual dependence and reinforcement between the individual and the collective give human capital the unique capacity for self-development and self-augmenting. This bootstrapping accounts for the evolutionary character of civilization, resulting particularly from organization, education and culture. It gives rise to *human capital its unlimited capacity for development, the very basis for the progressive advance of civilization.*

Human capital evolved slowly, but in recent centuries the pace of development has accelerated exponentially.

Variables	Agricultural Era	Industrial Era	Post-Industrial Era	Knowledge Era
Strategic Factors of Economic Growth	Land	Capacity of Industrial Production	Information	Knowledge
Organisational Factors	Hierarchy (Land Owner)	Blue Collar Bureaucracy (Factory Owner, Trade Union Leaders)	White Collar Bureaucracy (Administrators, IT Managers	Collaboration (Communities)
Predominant Consumer Goods	Food	Agricultural Goods, House & Clothing	Information & Communications Services & Products	Intellectual Products & Services
Technology	Agricultural	Manufacturing & Engineering	Information & Communications	Technology for Learning, Innovating, Consulting, Collaborating
Predominant Resource	Workforce	Physical Sources of Energy	Information	Ideas

Today's consumers are demanding more than ever...

- a taxi in 5 minutes
- a pizza in 20 minutes
- groceries in 60 minutes
- search results in 0.3 seconds
- content on demand
- not to stand in line at a supermarket
- not to pay cash
- immediate answer to questions



Source: Dr. Tu Lam Pham

- YouTube: E-Commerce Trends 2018 – Amazon, Artificial Reality and Augmented Reality
<https://youtu.be/Kxr0nplICHE>

Human Capital – Creativity & innovation

A Gift from the God or a New Phenomenon?

Or...Could Both Be True????..... Maybe?

Natures Creation?

or

Human Creation

Venoms & Poisons

or

Anaesthetics

The Leaf

or

Solar Panel (energy from light)

Brain

or

Computer/Electronic Circuitry

DNA

or

Computer Program

Ear Drum

or

Microphone

Eye

or

Camera (lens, focus, iris, film)

Eye Lid

or

Windshield Wiper

Tears

or

Wiper Fluid

Incisor Teeth

or

Knife

Heart

or

Pump

 Prifysgol Cymru
Ynys Môn
University of Wales
Trinity Saint David

Spinal Chord/Nervous system

or

Communication/Telephone Cables

Song Birds

or

Music

Society now...

Society now exhibits the apparent capacity to leapfrog in a single generation from riding donkeys & horses to flying in airplanes, from bullock carts to cell phones, from primitive agriculture to advanced ICT-based services.

Humans....

.... are the real wealth of nations. The basic aim of development is to enlarge human freedom and choices so that people live full and creative lives. This must benefit everybody equitably.” ***The State of Human Development, Human development indicators, 2004, p.127, UNDP***

..... entitled to be: healthy, educated, active and happy, living in a society of social justice and social cohesion in a healthy environment assuring sustainable devt.

Society now...

Contemporary socio-political system is not adequately understood and we even lack appropriate measures (e.g. GDP is not adequate!). **We need a new paradigm for human development.**

Measure: from income to people-centered: *Human Development Index* (A. Sen, Mahbub ul Haq, Human Development Report 2013: The Rise of the South – Kh. Malik)

Measurement of Economic Performance & Social Progress, 2009 – also suggest *subjective indicators of well-being*.

Country HDI_r (GNI-HDI)_r IHDI_{los} GINI LS_(0-10h)

r-ranking, IHDI_{los} decrease due to inequality

Germany	5	10	6.9%	28.3	6.7
Austria	18	- 5	6.6	29.2	7.5
Slovenia	21	12	5.8	31.2	6.0
Croatia	47	4	15.1	33.7	5.6
RusFed	55	0		40.1	5.4
MontN	52	24	8.0	45.3	5.5
Serbia	64	16	8.0	27.8	4.5

Measuring Human Capital

While financial capital, land, even labor and natural capital are measured or are attempted to be expressed through money, human and social capitals seem to be above and beyond expressing in money. One of the major tasks ahead is to measure human and social capitals, qualitatively and possibly quantitatively.

Real Wealth of Nations (2012??): human, natural and human-made capital

USA (2008)	=	\$ 117.8 trillion	(HC = 75%)
UK	=	\$ 13.4	(HC = 88%)
Saudi Arabia	=	\$ 4.9	(HC = 35%)
Brazil	=	\$ 7.4	(HC = 62%)
Russia	=	\$ 10.3	(HC = 21%)

Health + Education + Freedom + Cooperation + Activity

Estimate World Natural Capital (1997, Nature)

= 33 T\$ = 2 x WGDP

World GDP : World Wealth = 60 : 600 T€

Moral Crisis

“Every gun made, every warship launched, every rocket signifies in the final sense a theft from the hungry. The world in arms is not only spending money. It is spending the sweat of its laborers, the genius of its scientists.”(D. D. Eisenhower, 8/16/ 1953)

“To ensure the development of humankind, it is necessary to banish war, any military and non-military violence from our culture. Violence and its ideology are remnants of the past., social pathologies incompatible with the new era.” (A. Peccei, 1984)

Human Capital Management (HCM)

- HCM is concerned with obtaining, analysing and reporting on ***data*** that inform the direction of value-adding people management, strategic, investment and operational decisions at corporate level and at the level of front line management.
- **The defining characteristic of HCM is the use of metrics to guide an approach to managing people that regards them as assets and emphasizes that competitive advantage is achieved by strategic investments in those assets through employee engagement and retention, talent management and learning and development programmes.**

Aims of HCM

- To determine the impact of people on the business and their contribution to value;
- To demonstrate that HR practices produce value for money in terms (e.g. ROI).
- To provide guidance on future HR and business strategies.
- To provide data that will inform strategies and practices designed to improve the effectiveness of HRM in the organization.

Business strategy and HCM

	Content	HR Supporting Activities	Supporting Data Required
Business Strategy	Growth – revenue, profit. Maximize shareholder value. Growth through acquisitions or mergers. Growth in production or servicing facilities. Product development. Market development. Price/cost leadership.	Human resource planning. Talent management. Skills development. Targeted recruitment. Retention policies. Leadership development.	Workforce composition. Attrition rates. Skills audit. Outcome of recruitment campaigns. Learning and development activity levels. Outcome of leadership surveys.

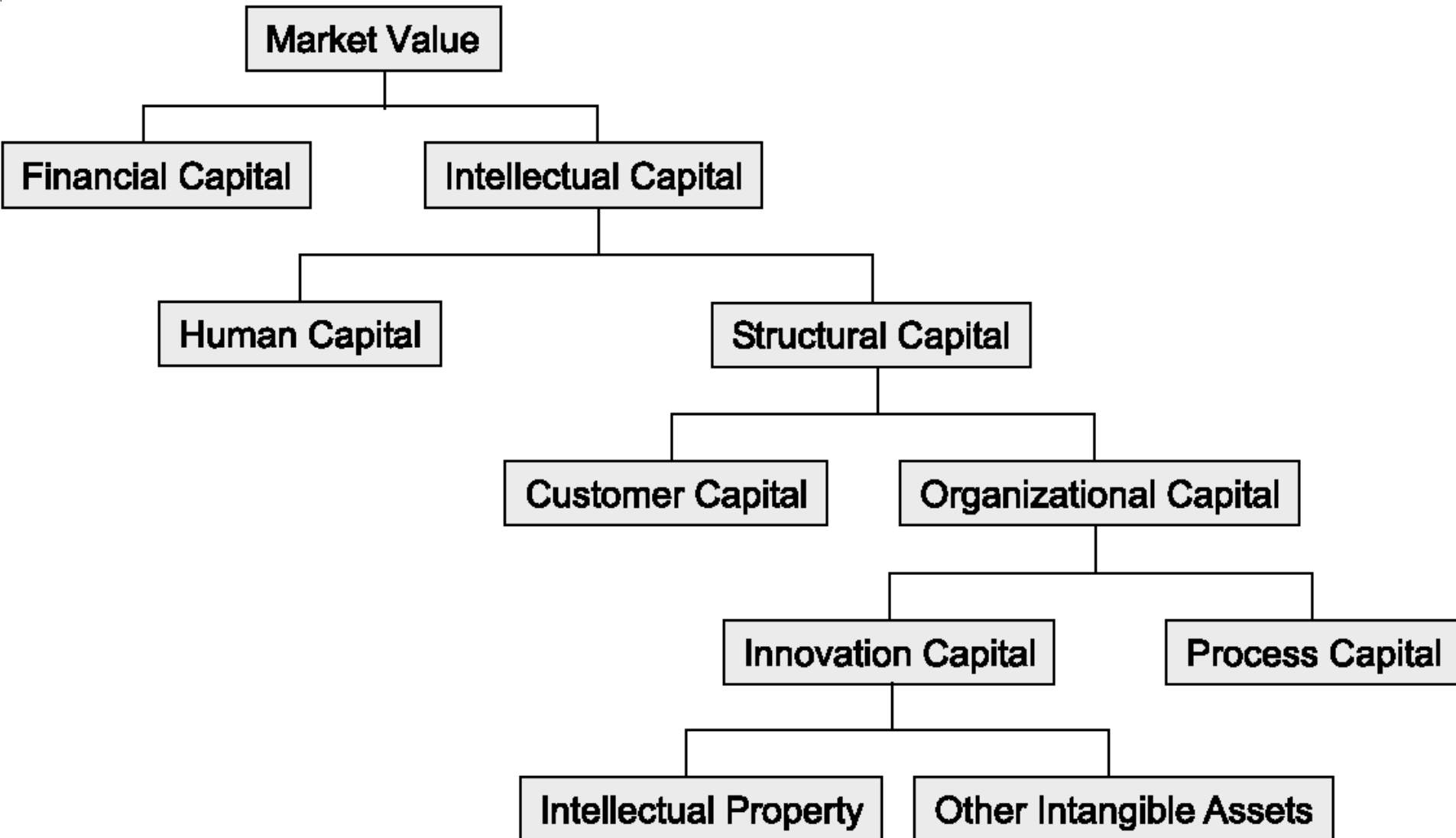
Business drivers and HCM

Business Drivers	Innovation. Maximize added value. Productivity. Customer service. Quality. Satisfy stakeholders – investors, shareholders, employees, elected representatives.	Talent management. Skills development. Total reward management. Performance management. Develop high-performance working. Enhance motivation, engagement and commitment. Leadership development.	Balanced scorecard data. Added-value ratios (eg added value per employee, added value per pound of employment cost). Productivity ratios (eg sales revenue per employee, units produced or serviced per employee). Outcomes of general employee opinion survey and other surveys covering engagement and commitment, leadership, reward management and performance management. Analysis of competence level assessments. Analysis of performance management assessments. Analysis of customer surveys. Analysis of outcomes of total quality programmes. Return on investment from training activities. Internal promotion rate. Succession planning coverage.
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Human Capital

- Human capital represents the human factor in the organization; the combined intelligence, skills and expertise that gives the organization its distinctive character.
- The human elements of the organization 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 organization.

Intellectual and Human Capital



Intellectual capital

- the stocks and flows of knowledge available to an organization. These can be regarded as the intangible resources associated with people which, together with tangible resources (money and physical assets), comprise the market or total value of a business.
- Bontis (1998) defines intangible resources as the factors other than financial and physical assets that contribute to the value-generating processes of a firm and are under its control.

Social capital

- It consists of the knowledge derived from networks of relationships within and outside the organization.
- The concept of social capital has been defined by Putnam (1996) as ‘the features of social life – **networks**, norms and **trust** – that enable participants to act together more effectively to pursue shared objectives’

Human capital advantage

- sustainable competitive advantage is attained when the firm has a human resource pool that cannot be imitated or substituted by its rivals.

Questions on people management raised by human capital theory

- What are the key performance drivers that create value?
- What skills do we have?
- What skills do we need now and in the future to meet our strategic aims?
- How are we going to attract, develop and retain these skills?
- How can we develop a culture and environment in which organizational and individual learning takes place that meets both our needs and the needs of our employees?
- How can we provide for both the explicit and tacit knowledge created in our organization to be captured, recorded and used effectively?

Why measuring the value and impact of human capital

- Human capital constitutes **a key element of the market worth** of a company. A research study conducted in 2003 (CFO Research Studies) estimated that the value of human capital represented over 36 per cent of total revenue in a typical organization.
- People in organizations add value and there is a case for assessing this value **to provide a basis for HR planning and for monitoring the effectiveness and impact of HR policies and practices.**
- The process of identifying measures and collecting and analysing information relating to them will focus the attention of the organization on **what needs to be done to find, keep, develop and make the best use of its human capital.**
- Measurements can be used **to monitor progress in achieving strategic HR goals and generally to evaluate the effectiveness of HR practices.**
- **You cannot manage unless you measure.**

Main HCM data used for measurement

- **Basic workforce data** – demographic data (numbers by job category, sex, race, age, disability, working arrangements, absence and sickness, turnover and pay).
- **People development and performance data** – learning and development programmes, performance management/potential assessments, skills and qualifications.
- **Perceptual data** – attitude/opinion surveys, focus groups, exit interviews.
- **Performance data** – financial, operational and customer.

Approaches to measurement

- The human capital index
- The organizational performance model
- The human capital monitor

Human capital index

- Watson Wyatt (2002) identified four major categories of HR practice that could be linked to increases in shareholder value creation:
 - total rewards and accountability 16.5 %
 - collegial, flexible workforce 9.0 %
 - recruiting and retention excellence 7.9 %
 - communication integrity 7.1 %

The organizational performance model

- **People, work processes, management structure, information and knowledge, decision making and rewards** plays out differently **within the context of the organization**, creating a unique DNA.
- If these elements have been developed piecemeal, as often happens, **the potential for misalignment is strong** and it is likely that human capital is not being optimized.

The organizational performance model

- ‘Internal Labour Market Analysis’: draws on the running record of employee and labour market data to analyse the actual experience of employees. Thus **gaps can be identified between what is required in the workforce to support business goals and what is actually being delivered.**

The human capital monitor

- is to identify the human value of the enterprise or 'human asset worth': *employment cost* × *individual asset multiplier*.
- *Individual asset multiplier*: a weighted average assessment of capability, potential to grow, personal performance (contribution) and alignment to the organization's values set in the context of the workforce environment.
- Absolute figure isn't important: what does matter is to consider **whether human capital is sufficient, increasing, or decreasing, and highlights issues** to address.
- The most critical indicator for the value of human capital is the level of **expertise possessed** under the headings of identified organizational core competencies.