

**Title** - A study on Strategic approach to understanding and measuring human capital through performance measurement system

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### **ABSTRACT:**

- This study offers a methodical way to using performance measurement systems (PMS) to comprehend and quantify human capital. It emphasizes how these systems may be created and put into use to evaluate worker performance, spot skill shortages, and match individual efforts with company objectives. Organizations may improve personnel usage, facilitate strategic decision-making, and obtain a thorough picture of workforce capabilities by combining quantitative and qualitative measurements. The study also looks at the difficulties and best practices in creating strong frameworks for performance assessment, emphasizing how crucial it is to match measurements with strategic goals and promote a continuous improvement culture. In order to achieve long-term organizational success, the article also provides practical methods for utilizing PMS to improve human capital management. the need of performance measurement in properly managing human capital, an intangible asset that is a major source of competitive advantage, in order to maintain high performance, innovation, and growth. Along with suggestions on how to match human capital evaluation with corporate objectives, key indicators for assessing human capital across a range of industries—including healthcare, technology, manufacturing, and financial services—are covered. The study also examines the role that investments in human capital—such as training, education, and development—play in promoting organizational productivity and economic success. The results highlight the importance of human capital for the overall growth of the economy and society as well as for organizational success.

**KEY WORDS:** Human resources , human capital , performance measurement system , technology

## **INTRODUCTION:**

This paper discusses a strategic approach to measuring human capital through performance measurement systems (PMS), focusing on how these systems can be designed and implemented to assess employee performance, identify skill gaps, and align individual contributions with organizational goals. By integrating quantitative and qualitative metrics, organizations can gain deeper insights into workforce capabilities, optimize talent utilization, and drive strategic decision-making. The paper also discusses the challenges and best practices associated with developing robust performance measurement frameworks, emphasizing the importance of aligning metrics with strategic objectives and fostering a culture of continuous improvement.

The study aims to provide actionable strategies for leveraging performance measurement systems to enhance human capital management and achieve long-term organizational success. Human capital, which includes skills, experience, and knowledge, is a critical asset for organizations in today's competitive landscape. Organizations are increasingly recognizing the importance of understanding and measuring human capital, which includes the skills, knowledge, and competencies employees bring to an organization. Effective management of this intangible asset is crucial for sustaining high performance, innovation, and growth. Performance measurement systems are essential tools for assessing and managing human capital, offering a structured approach to evaluating employee contributions and aligning individual performance with broader organizational goals.

## **ROLE OF HR:**

HR plays a crucial role in recruiting candidates, hiring employees, maintaining employee records, conducting benefit analysis, and training and supporting managers. Recruiting involves understanding the organization's needs, analyzing the market, consulting stakeholders, and managing budgets. HR is responsible for arranging interviews, coordinating hiring efforts, onboarding new employees, and ensuring all paperwork is completed. Maintaining HR records is mandated by law, helping employers identify skill gaps, analyze demographic data, and comply with regulations. They also contain personal details and emergency contacts for each employee. Conducting a benefit analysis is essential for staying competitive in the talent market. HR should regularly investigate similar companies to determine if their benefits are competitive.

Training and supporting managers is crucial for maintaining department and team health and functionality. HR can provide guidance to managers, sending them to formal training and retreats. By following these strategies, HR can help achieve organizational long-term competitiveness and sustainability.

## **OBJECTIVES OF THE STUDY:**

### **Primary Objectives:**

- To understand human capital through performance measurement system
- To measure human capital through performance measurement system
- To know the implied of employee performance through performance measurement system.

### **Secondary Objectives:**

- To study human value for assessing and managing human capital.
- To explore desire and develop organization system to integrated employee development and alignment with strategic goal.

## **SCOPE OF THE STUDY:**

The proposed metrics for measuring human capital include innovation, problem-solving skills, adaptability, healthcare, manufacturing, financial services, customer satisfaction, employee engagement, and risk management capability.

- In **technology**, innovation can be measured by the number and quality of patents, publications, or new product ideas generated by employees, while problem-solving skills can be assessed by analyzing the time it takes to resolve issues, the quality of solutions, and the number of successful problem-solving projects. Adaptability can be evaluated by tracking participation in training programs, completion of certifications, and the speed at which employees adopt new tools or processes.
- In **healthcare**, clinician performance can be assessed by analyzing patient satisfaction surveys, mortality rates, and compliance with evidence-based practices. Patient satisfaction can be measured by assessing factors like communication, wait times, and overall experience. Compliance with quality

standards can be evaluated by tracking the number of quality audits, the rate of corrective actions, and the overall quality of care provided.

- In **manufacturing**, productivity can be measured by measuring the output of employees relative to their inputs, such as labor hours or materials used. Efficiency can be assessed by tracking metrics like defect rates, material usage, and energy consumption. Adherence to safety protocols can be evaluated by tracking the number of safety incidents, employee safety training completion rates, and safety inspections.
- **Financial services** can be measured by customer satisfaction, employee engagement, and risk management capabilities. These metrics help organizations assess their ability to identify, assess, and mitigate risks, ultimately improving their overall performance. The text outlines three key metrics for measuring student achievement in education: academic progress, teacher effectiveness, and institutional reputation. Student achievement is measured through standardized tests and assessments, while teacher effectiveness is assessed through evaluations and student feedback. Institutional reputation is measured through metrics like application rates, enrollment rates, and alumni satisfaction, aiming to improve the organization's reputation among students and the community.

### **LITERATURE REVIEW:**

1. **Abdulbaqi Badru (2021), Human resource management and human capital management, DOI:10.13140/RG.2.2.29587.76327.** HRM focuses on the supply and demand of the organizational workforce (Siddiqui, 2012). HRM personnel invest in potential employees with the necessary skills and competencies to achieve expected deliverable in an organisations. HCM personal are responsible for identifying and operationalising approaches and systems to develop the skills and competencies of employees towards the strategic goals of the organisations. HCM is a systemic way of managing people. HCM is the “discipline of acquiring, retaining, measuring, managing, and leveraging the workforce.
2. **Dr. Philip Stiles Mr. Somboon Kulvisaechan, Human capital and performance: A literature review.** HRM practices that encourage high skills and abilities. Employees who invest in education and training will raise their skill level and be more productive than those less skilled. The link between human capital and performance is based on two theoretical strands.
3. **Performance measurement system design: A literature review and research agenda, Andy Neely, Mike Gregory, Ken Platts,ISSN: 0144-3577, Vol. 15 No. 4, pp. 80-116.** The importance of performance measurement has long been recognized by academics and practitioners from a variety of functional disciplines. Seeks to bring together this diverse body of knowledge into a coherent whole. To ensure that the key

issues are identified, focuses on the process of performance measurement system design, rather than the detail of specific measures.

4. **Human capital management: the new competitive approach, MD. Uzzal Hossain, ishita roy VOL-IV issue 5 may 2016 ISSN 234803866**, Human capital is the combined intelligence, skills, and expertise that give an organization its distinctive character. It is the human element that can learn, change, innovate, and provide creative thrust, ensuring the long-term survival of the organization. Human capital management (HCM) is concerned with obtaining, analyzing, and reporting on data that informs value-adding strategic, investment, and operational people management decisions at corporate and frontline management levels.
5. **A systematic review on human capital “ A view from human resource development, Lawrence arokiasamy , takemi fujikawa , shishikuman pairalal, siti sarah omar , DOI 10.18502**, Human resource management is a core strategic resource that helps firms reach higher levels of performance through adjustments. Human capital development is integrated into a larger effort to achieve cost-effective and high-performance outcomes. To improve employee satisfaction and performance, firms must understand human capital. Despite the widespread notion that human property has a positive influence on business performance, the idea of human profit has yet to be properly verified.

#### **UNDERSTANDING HUMAN CAPITAL:**

Human capital encompasses not just the number of employees but also their competencies, engagement, and potential to drive organizational success. It consists of knowledge, skills, abilities, and experience, which are all derived from past roles and functions.

A Performance Management System (PMS) is a tool used to assess and monitor organizational processes, including human capital, providing valuable insights into how the workforce contributes to overall goals.

#### **STRATEGIC APPROACH TO MEASURING HUMAN CAPITAL:**

- **Align with Business Objectives:** To guarantee that human capital indicators significantly contribute to strategic initiatives, they must be tightly matched with the organization's overall objectives. Metrics may highlight employee inventiveness and involvement in new projects, for instance, if a business places a high priority on innovation. Metrics could evaluate how employee performance affects the quality of customer service if achieving customer satisfaction is the aim. Metrics that are in line with company goals guarantee that human capital management promotes and propels corporate performance..

- **Develop Relevant Metrics:** It's critical to find and use measurements that appropriately capture the impact of human capital. Some examples of key indicators are: Employee Turnover Rates: Indicates possible problems with work satisfaction or organizational culture by measuring the rate at which employees depart the company. Training Effectiveness: Evaluates how well training initiatives improve worker performance and abilities and whether they help the company reach its objectives. Talent Acquisition Efficiency: Assesses how well recruitment procedures draw in and hire qualified candidates in a timely and economical manner. By offering insights into different facets of human capital, these metrics help organizations strengthen their areas of weakness and build on their strengths.
- **Leverage Technology:** The evaluation and management of human capital can be improved by utilizing HR analytics and data-driven solutions. Effective collection, analysis, and visualization of human capital data is made possible by technologies like performance management software, HR information systems (HRIS), and data analytics platforms. Patterns and trends found by advanced analytics can be used to improve overall human capital strategies, forecast future demands, and make well-informed decisions.
- **Continuous Improvement:** To keep human capital measurements current and useful, they must be reviewed and improved on a regular basis. Businesses should regularly evaluate if their present measurements still reflect evolving market dynamics and corporate strategies. This entails getting input, examining performance information, and modifying measurements as necessary. By ensuring that human capital measurement adjusts to changing organizational requirements and outside variables, continuous improvement promotes continued growth and competitiveness.

### **INTEGRATING HUMAN CAPITAL METRICS INTO PMS:**

For human capital metrics to be effective, they must be integrated into the overall PMS framework. This ensures that human capital is considered alongside other performance areas, like financial and operational metrics. The integration process involves:

- **Data Collection:** Accurate and thorough data collection is the first step in successfully integrating human capital measurements into a PMS. This includes: HR Systems: Gathering information from HR information systems (HRIS), including training records, performance reviews, and personnel records. Employee surveys and feedback systems are used to collect qualitative information about engagement, job happiness, and company culture. Operational Data: Combining information about talent acquisition, turnover, and productivity from operational systems. Consistency and Accuracy: Preventing errors and inconsistencies that could distort the results by ensuring data accuracy through routine audits and validation procedures.
- **Analysis:** Explanation: After data is gathered, it is analyzed using sophisticated analytics tools to produce insights that may be put into practice. Analyzing past data to spot trends and patterns, including training effects or attrition rates, is known as

descriptive analytics. Using statistical models and algorithms to predict future trends, such as possible skill shortages or turnover risks, is known as predictive analytics. Prescriptive analytics is the process of making suggestions based on data insights, like the best training plans or hiring techniques. Visualization Tools: Using data visualization tools and dashboards to display complicated data in an understandable manner for simpler interpretation.

- **Reporting:** Clear and actionable communication of the outcomes of human capital measurements to stakeholders is a necessary component of effective reporting. Concision and Clarity: Data should be presented simply, emphasizing important conclusions and ramifications without overloading stakeholders with information. Tailored Reports: Creating reports with the metrics most pertinent to the jobs of various audiences, such as managers, executives, or human resources specialists. Frequency: Keeping stakeholders updated on the performance and trends of human capital through frequent updates (such as quarterly or annual reports).

- **Feedback and Adjustment:** Feedback and Modification: Explanation: Applying knowledge gleaned from data analysis to make wise choices and enhance HRM procedures over time entails: Practical Advice: converting data results into practical measures, including modifying training plans in light of efficacy indicators or improving hiring practices in light of talent acquisition information.

Loops of Feedback: putting in place systems for getting input on how well changes have been implemented and using that input to improve metrics and procedures. Continuous Improvement: Reviewing and upgrading human capital measurements on a regular basis to make sure they stay current and in line with changing external circumstances and organizational objectives. Over time, this iterative process aids in improving results and enhancing human capital management techniques.

### **IMPORTANCE OF HUMAN CAPITAL:**

Human capital, which includes knowledge, skills, and health, is essential for societal productivity and ending extreme poverty. It requires investments in nutrition, healthcare, education, jobs, and skills. Inaction on human capital development is costly, as it hinders economic growth, prepares work forces for future highly-skilled jobs, and enhances global competitiveness. Investing in human capital is crucial for sustaining economic growth and preparing for future job demands. Human capital refers to the stock of skills, abilities, expertise, education, and knowledge in a nation at a specific time. Investment in human capital is crucial for producing more human capital from human resources, such as educators, doctors, engineers, and professors. This investment creates human assets that contribute to the economy of the country.

Human capital is the main reason for accelerated growth and expansion in countries that invest in human capital, providing advantages for work and lifestyles. High-quality human capital in fields like health, science, management, education, and other fields generates a stable environment for growth. Human capital manages the central portion of national wealth and is considered the most important resource of the community. It determines the rate of development, economic, technological, and scientific progress in most countries.

Human capital leads to inventions, innovations, and technological improvement, increasing labor productivity and allowing for the absorption of new technologies. It also raises production levels, leading to economic growth by adding to the GDP. Knowledgeable and skilled workers can make better use of resources at their disposal. Human capital also increases participation and equality in the labor force, leading to high rates of participation and reducing the gap between the poor and the rich. Additionally, human capital improves the quality of life, as income and health depend on education and skill formation.

Human capital is the economic value of a worker's intangible assets or qualities, such as attributes, communication, creativity, education, emotions, experience, habits, health, intelligence, judgment, knowledge, personality, qualifications, skills, talents, training, and values. These assets create wealth that is valuable to the company and its goals, influencing productivity, profitability, and earning potential. It is better to have an employee with skills and knowledge that can boost the company's goals than without them.

There are two types of human capital: general and specific. General human capital is when an employee has knowledge and skills that different employers value, while specific human capital is when the employee has knowledge and skills that only one or two employers value. Investing in employees' education, experience, and work benefits can help create a higher quality workforce. Investments can include funding college scholarships, providing work training and development, enhancing skill development, empowering employees, creating more flexible jobs, and supplying bonuses and benefits. The more investments made, especially over a continuous, long-term timeline, the better off the human capital.

A higher value of human capital can theoretically increase the productivity and profitability of the company, and a company would prefer an employee with skills and knowledge over someone with no skills and knowledge. Investing in an employee can also help the overall economy, as higher degrees often yield larger salaries, allowing the employee to spend more money on the economy. Philosopher Karl Marx also talked about human capital, though he called it "labor power" and suggested that in capitalist systems, people sell their labor power in return for income.

The speaker suggested that enhancing it through training and education can lead to a more profitable enterprise, thereby contributing to societal wealth. Karl Marx, a philosopher, referred to human capital as "labor power" and suggested that individuals in capitalist systems exchange their labor power for income.

### **CONCLUSION:**

Human capital is crucial for a nation's long-term economic success, according to the World Economic Forum's annual Human Capital Report. It generates material wealth for an economy or private firm, and in public organizations, it provides for public welfare. The development and management of human capital are key



determinants of economic and organizational performance. Human capital management helps organizations meet labor demands and maximize employees' potential through recruitment, on boarding, development, and retention-related activities. Therefore, human capital is a vital resource for economic growth and productivity.

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