

## **A Relationship among Human Capital Supervision and Organizational Effectiveness in IT Companies**

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### **ABSTRACT**

Human Capital Management (HCM) is an approach to employee staffing that perceives people as assets (human capital) whose current value can be measured and whose future value can be enhanced through investment. While studying the existing literature the researcher identified two research gaps the first lacunae encounters with the exact determination of human capital management elements in IT companies. The second gap emerged out of undivided issues of relationship between Human Capital Management and Organizational Effectiveness. This study is based on both primary and secondary data. Primary data is obtained from the well-structured questionnaire with statements regarding Human Capital Management and Organizational Effectiveness in liker's five point scale. The meticulous observation in the research identified that the Executive Development focus on IT companies did not utilized the Human Capital completely. Therefore it is concluded that Human Capital Management in the IT companies mainly focus on setting the targets and equipping the employees to achieve the target. Hence it is suggested the coordination among top level executives, middle level managers and operational level employees in IT companies for the collective efforts to manage the Human Capital positively.

### **1. INTRODUCTION**

Human Capital Management (HCM) is an approach to employee staffing that perceives people as assets (human capital) whose current value can be measured and whose future value can be enhanced through investment. Often the term human resources and human capital are mentioned together. But are they really different? If so, how? Simplistically, a human resources professional is usually an individual who manages the transactional activities of a company (e.g., payroll, benefits, compliance operations and reporting). Human Capital professionals, however, serve a strategic function in an organization. Strategic activities often managed by human capital professionals include performance management, professional development and human resources planning and measurement. HCM is concerned with obtaining, analyzing 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. It is, as emphasized by ultimately about value (Kearns, 2005).

Nalbantian & al (2004) emphasize the purposeful measurement aspect of HCM. They define human capital as: "The stock of accumulated knowledge, skills, experience, creativity and other relevant workforce attributes" and suggest that HCM involves "Putting into place the metrics to measure the value of these attributes and using that knowledge to effectively manage the organization" (Baron, Armstrong, 2007). HCM is sometimes defined more broadly without the emphasis on measurement. Chatzkel (2004) states that: "HCM is an integrated effort to manage

and develop human capabilities to achieve significantly higher levels of performance". And Kearns (2005) describes HCM as: "The total development of human potential expressed as organizational value". He believes that "HCM is about creating value through people" and that it is "a people development philosophy, but the only development that means anything is that which is translated into value" (Baron, Armstrong, 2007).

HCM responds to the need of creating smart organizations by hiring the right people, giving them the right knowledge and providing them with ways to share that knowledge in order to benefit the entire organization (Afiouni, 2009). Human Capital is valuable to the extent that it contributes to a firm's competitive advantage by improving efficiency and effectiveness, exploiting opportunities or neutralizing threat. They are the only assets that appreciate with use. Human Capital is the employees' ability to do things that ultimately makes the company work and succeeds (Choudhury, Mishra, 2010). Medard et al (2012), "Human Capital is the stock of competencies, knowledge and personality attributes embodied in the ability to perform labor, so as to produce economic value".

## **2. REVIEW OF LITERATURE**

Human Capital represents various features and aspects of organizational employees. These features include but not restricted to their competencies, procedural knowledge and particular individual's characteristics like mental ability, zeal and enthusiasm, opinion, consistency, dedication, loyalty, innovativeness, ingenuity, ability to work in team and proficiency to attain organizational coveted objective (Fitz-enz, 2000). Human Capital means not only employee skills and knowledge that enhance productivity, but also the unique and valuable resource which can be accumulated by HR systems. However, organizations should recognize the core human capital, and be able to invest in it (Delery & Shaw, 2001).

Human Capital as the combination of knowledge, skills, talent and experience of employees which can produce added value for organizations. It is a source of innovation and strategic renewal, whether it stems from brainstorming in a research lab, day-dreaming at the office, disposing of old files, re-engineering new processes, improving personal skills or developing new ideas in a sales representative's little black book (Lin, 2003). The basic feature of human capital is that how the organization treats its employees as the most valuable resource. Furthermore by utilizing the workforce efficiently the organization can attain the competitive edge. Human Capital Management is a link between workforce and organizational planning (Kearns, 2005).

Organizational effectiveness is defined as the extent to which an organization, by use of certain resources, fulfills its objectives without depleting its resources and without placing undue strain on its members and/or society (Mary et al, 1996). It is the maximum combined utility of the primary constituents (Matthew et al, 2005). HCM includes collecting and assessing the information required to attract, retain, develop and maintain the top performing and talented workforce, comparing the practices and identifying ways to achieve competitive advantage. The unique feature of human capital is that it is specific to a particular organization and cannot be replicated (Mrudula and Kashyap, 2005).

As defined by Baron and Armstrong (2007); human capital management is related with acquiring the information which let management know about its different policies albeit policy regarding its finance, procedures and also about how their human resource do in fact add value to the organization. According to Mayo (2009) the difference between human capital

management and human resource management lies in the fact that human capital is seen as a wealth of business, while the source is seen as a cost.

HCM is the use of instruments for measurement of the properties of human capital and thus use the knowledge to effectively manage the organization (Nalbantian, 2010).

Composition of people which formulate independent business identity for some specific purpose is commonly known as organization and getting desired outcome within defined resources is treated as effectiveness. Organizational effectiveness is the notion of how effectual an organization is in accomplishing the results the organization aims to generate (Muhammad, et al, 2011).

### **GAPS IN THE LITERATURE**

After reviewing National and International literature the researcher identified two predominant lacunae. The first lacunae encounter with the exact determination of human capital management elements in IT companies. The second gap emerged out of undivided issues of relationship between Human Capital Management and Organizational Effectiveness. These two gaps induced the researcher to venture upon the present research work.

### **3. OBJECTIVES OF THE STUDY**

The following objectives are framed for this paper based on the gaps in the literature:

- To study the factors responsible for HCM in IT companies.
- To verify the relationship between HCM and Organizational effectiveness.

### **HYPOTHESIS**

- The factors of HCM do not differ significantly.
- There is no significant influence of HCM on Organizational Effectiveness.

### **4. METHODOLOGY**

This study is based on both primary and secondary data. Primary data is obtained from the well-structured questionnaire with statements regarding Human Capital Management and Organizational Effectiveness in liker's five point scale. The structured questionnaire is subjective to three steps namely pretesting, pilot study and main study. The researcher collected 50 samples from top 5 IT companies. To refined statements the likert's five point scale cronbach alpha method is applied on the statements of HCM and Organizational effectiveness and found the values are above 0.75 for all the 20 variables. It shows that the refinement is appropriate and researcher can be elevated to carry out the research in the domains of pilot study. The pilot study stage the researcher collected 110 samples for cross verifying the statements and scales. The exploratory factor analysis is done to verify the cross loading within the factors. Those statements are eliminated and further refinement is achieved in this stage. During the main study the researcher is able to collect 136 responses from the top 5 IT companies in Chennai city. The applications of confirmatory factor analysis and linear multiple regression analysis validated the present research work.

### **ANALYSIS AND DISCUSSION**

In this section the researcher applied factor analysis by principal component method to identify the factors of human capital management and organizational effectiveness. This helps to downsize the perfect representation factors accurately. The following researches are the outcomes of multi - variate factor analysis.

### KMO AND BARTLETT'S TEST

|                            |                   |         |
|----------------------------|-------------------|---------|
| <b>MEASURE OF SAMPLING</b> |                   | .736    |
| <b>BARTLETT'S TEST</b>     | <b>CHI-SQUARE</b> | 575.079 |
|                            | Df                | 45      |
|                            | Sig.              | .000    |

Source: Computed from Primary data

**TABLE NO 1**

From the above table it is found that the KMO measures for sampling adequacy for the 10 variables of human capital management is found to be 0.736, Bartlett's test of sphericity with approximate chi-square value is 575.079 are statistically significant at 5% level. This implies these three factors are statistically significant at 5% level and the derivations are presented in the following total variance table.

### TOTAL VARIANCE EXPLAINED

| COMPONENT | INITIAL EIGENVALUES |               |              | ROTATION SUMS OF SQUARED LOADINGS |               |              |
|-----------|---------------------|---------------|--------------|-----------------------------------|---------------|--------------|
|           | TOTAL               | % OF VARIANCE | CUMULATIVE % | TOTAL                             | % OF VARIANCE | CUMULATIVE % |
| 1         | 2.564               | 25.640        | 25.640       | 1.790                             | 17.900        | 17.900       |
| 2         | 1.288               | 12.878        | 38.518       | 1.737                             | 17.367        | 35.267       |
| 3         | 1.162               | 11.625        | 50.143       | 1.488                             | 14.876        | 50.143       |
| 4         | .856                | 8.557         | 58.700       |                                   |               |              |
| 5         | .809                | 8.087         | 66.787       |                                   |               |              |
| 6         | .801                | 8.008         | 74.795       |                                   |               |              |
| 7         | .728                | 7.284         | 82.079       |                                   |               |              |
| 8         | .661                | 6.607         | 88.687       |                                   |               |              |
| 9         | .598                | 5.976         | 94.663       |                                   |               |              |
| 10        | .534                | 5.337         | 100.000      |                                   |               |              |

Source: Computed from Primary data

**TABLE NO 2**

### EXTRACTION METHOD: PRINCIPAL COMPONENT ANALYSIS

From the above table it is found that 10 variables are reduced into three predominant factors with cumulative variance 50.143% and they also possess individual variances 17.9%, 17.367% and 14.876%. This implies all the three factors derived namely training and developments, goal setting and executive developments are very essential in determining the Human Capital Management in IT companies. After deriving the three predominant factors their respective influence on organizational effectiveness is obtained through regression analysis.

**MODEL SUMMARY**

| MODEL | R      | R SQUARE | ADJUSTED R SQUARE | STD. ERROR OF THE ESTIMATE |
|-------|--------|----------|-------------------|----------------------------|
| 1     | .52(a) | .260     | .28               | .98973214                  |

**Source:** Computed from Primary data. Predictors: (Constant), TD, GS, ED

**TABLE NO 3**

From the above table it is found that R=0.162, R Square=0.260 and Adjusted R Square=0.25. This implies the Human Capital Management factors influence 26% variance on organizational effectiveness. This leads to the verification of regression fit as shown in the following ANOVA table.

**ANOVA**

| MODEL |            | SUM OF SQUARES | DF  | MEAN SQUARE | F     | SIG.    |
|-------|------------|----------------|-----|-------------|-------|---------|
| 1     | Regression | 13.522         | 3   | 4.507       | 4.601 | .003(a) |
|       | Residual   | 504.478        | 515 | .980        |       |         |
|       | Total      | 518.000        | 518 |             |       |         |

**Source:** Computed from Primary data a Predictors: (Constant), TD, GS, ED b Dependent Variable: OE

**TABLE NO 4**

From the above table it is found that F=4.601, P=0.003 are statistically significant at 5% level. This implies the relationship between Human Capital Management and Organizational Effectiveness are significant and their individual influence is measured in the following Coefficient table.

**CO-EFFICIENT (A)**

| MODE<br>L | UNSTANDARDIZED<br>COEFFICIENTS |                | STANDARDIZE<br>D<br>COEFFICIENTS | T              | SIG.              |
|-----------|--------------------------------|----------------|----------------------------------|----------------|-------------------|
|           | B                              | STD. ERROR     | BETA                             | B              | STD.<br>ERRO<br>R |
|           | (Constant)                     | -<br>1.25<br>6 |                                  | -<br>3.25<br>9 | .001              |
| 1         | GS                             | .202           | .075                             | .122           | 2.69<br>9         |
|           | ED                             | -.023          | .074                             | -.015          | -.317             |
|           | TD                             | .130           | .063                             | .095           | 2.05<br>4         |

**Source:** Computed from Primary data a Dependent Variable: OE

**TABLE NO 5**

From the above table it is found that goal setting (Beta=0.122, T=2.699, P=0.007) , Training and Development (Beta=0.095, T=2.054, P=0.040) are statistically significant at 5% level. The Executive Development factor is not significant in influencing Organizational Effectiveness.

## **5. FINDINGS AND CONCLUSION**

The present research revealed that the Human Capital Management in IT companies predominantly leads a part goal setting decided in the organization for all individual employees and the appropriate training and development to achieve the goals. The meticulous observation in the research identified that the Executive Development focus on IT companies did not utilised the Human Capital completely. Therefore it is concluded that Human Capital Management in the IT companies mainly focus on setting the targets and equipping the employees to achieve the target. Hence it is suggested the coordination among top level executives, middle level managers and operational level employees in IT companies for the collective efforts to manage the Human Capital positively.

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