

An Available Approach to Human Capital Measuring: Short-term Response and Long-term Financial Performance Appraisal System

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Abstract: In order to study the causes of ineffectively and inefficiently measuring human capital within organizations (profit-organizations such as enterprises and non-profit organizations such as universities) in China, we analyze the potential and actual bias occurred in measuring and evaluating Human Capital (HC) within organizations. The study has helped administrators understand the challenges with objectively measuring behavior as well as some of the pitfalls associated with employee and manager bias in administering performance appraisals. For this purpose, research has focused on value creativity to more accurately and objectively measure HC. The study shows short-term response and long-term financial performance appraisal system is an available approach to effective and efficient Human Capital Measuring (HCM). In this sense, we hope that short-term response and long-term financial performance appraisal system within organizations in China can drive effects and efficacies in measuring HC and more importantly to be a “pioneer” in such applications.

Keywords: Effects and efficacies, human capital measuring, long-term financial performance appraisal, short-term response, value creativity

INTRODUCTION

Over the ten years through 2013, Human capital management has been practiced within organizations (profit-organizations such as enterprises and non-profit organizations such as universities) in China which has aroused more interest as a result of newly developing and expanding philosophy of people-oriented. At the same time, the essence of Chinese Dream is to put people first. Management literature, in particular resource-based strategy acknowledges the fundamental role of intangibles and Human Capital (HC) in value creativity (Auzair and Langfield-Smith, 2005). HC encompasses all competencies and effects and efficacies of an organization's workforce (Holland, 2003), the organization can develop key competencies that are difficult to imitate and thereby gain a sustainable competitive advantage. Managing HC well can be a key success factor. This importance of HC led an organization to implement Human Capital Measuring (HCM).

The form, effects and efficacies of performance measuring systems have been extensively studied in the management accounting and control systems literature (Bontis, 1998). This literature has criticized traditional performance measures and recommended, instead, the use of short-term response and long-term financial performance measures which are capable of measuring

and controlling the organization's internal performance drivers (Burney and Widener, 2007). HCM belong to this “new” set of non-traditional performance measures.

The composition and form of HCM have also given rise to an abundant literature, especially in the field of Human Resource (HR) management (Van der Stede, 2001). Indeed, armed with evidence of the value HC can create, HR managers can take an important role in the formulation of strategy and of HCM. With the widespread outsourcing of HR administrative tasks, this exhortation is becoming ever more urgent. One of the consistent refrains that accompany the encouragement for HR managers to become strategic business partners concerns the use of HCM (Sewart, 2010).

Key Performance Indicators (KPI) or scorecards are often implemented by management accountants, it is important for management controllers to understand HR managers' perspective and their needs in terms of HCM. Specifically, HCM remain broadly defined at the human resources level, such as employee satisfaction, turnover, or labor costs (Tayles *et al.*, 2007).

Our conclusions are in particular by focusing on HCM that are one specific component of the short-term response and long-term financial performance appraisal system. Results confirm for researchers as well as HR and management control professionals the importance of implementing HCM in a strategic performance management system and by pointing out directions for

future research. In this sense, we hope that short-term response and long-term financial performance appraisal system within organizations in china can drive effects and efficacies in measuring human capital and more importantly to be a “pioneer” in such applications.

MATERIALS AND METHODS

Human capital management has been practiced within organizations (profit-organizations such as enterprises and non-profit organizations such as universities) in china which has aroused more circus as a result of newly developing and expanding philosophy of people-oriented. But, the organization can develop key competencies that are difficult to imitate and thereby gain a sustainable competitive advantage.

Traditional organizations performance appraisal slowly being replaced by an available approach to Human Capital Measuring (HCM): Advances in information technology and analytic methods are making it possible for organizations to manage investments in human capital in a way that can have a measurable impact on value creativity. Rather than use traditional performance appraisal as an instrument, organizations use it politically to get to their desired ends (Chenhall, 2005). Managers should use the balance of evidence in HCM to come to conclusions. It is suggested that this trial metaphor will produce the higher perception of justice than is now observed in many traditional performance appraisal settings (Taylor and White, 2001).

In addition to the manager’s perception of the importance of HCM, the justice the manager views in the organizations performance appraisal system will also affect the manager puts into competing the performance appraisal accurately (Chenhall, 2005).

Likewise, if a manager does not feel that there is distributive justice based on the results of the traditional performance appraisal, it is likely that the manager will not put much effort into completing the performance appraisal accurately.

In addition, three underlying principles drive this new approach to HCM. Firstly, we must insist on systems thinking, business models and human capital strategies must match. Secondly, we must get the Key Performance Indicator (KPI), including: careerist, work redesign, work efficacies, job skills, work effects, financial incentives and team work (As shown in Fig. 1), tap into the running record of your organization for specific insights. Thirdly, we must focus on value creation, know and focus on what’s important to drive value creativity (As shown in Fig. 2). As the manager in a performance evaluation setting decides the level of effort that he or she will put into completing a performance appraisal accurately, they also must take into account the link between traditional performance appraisal accuracy and the desired value creativity of HCM.

Identifying value creativity of HCM by using short-term response drivers: In order to indentify value creativity of HCM by using short-term response drivers, the managers and the employees bring certain characteristics to the performance appraisal process (White and Taylor, 2003). HCM argues that an individual’s behavior is based on a balance between “Organizational Behavior Modification” and “traditional motivation theories”. HCM suggests that an individual’s behavior is a value creativity result of an interaction among situations, persons and consequence components of the environment (Widener, 2006). HCM finds the middle ground between extrinsic motivation theories such as behaviorism and intrinsic motivation theories such as expectancy theory.

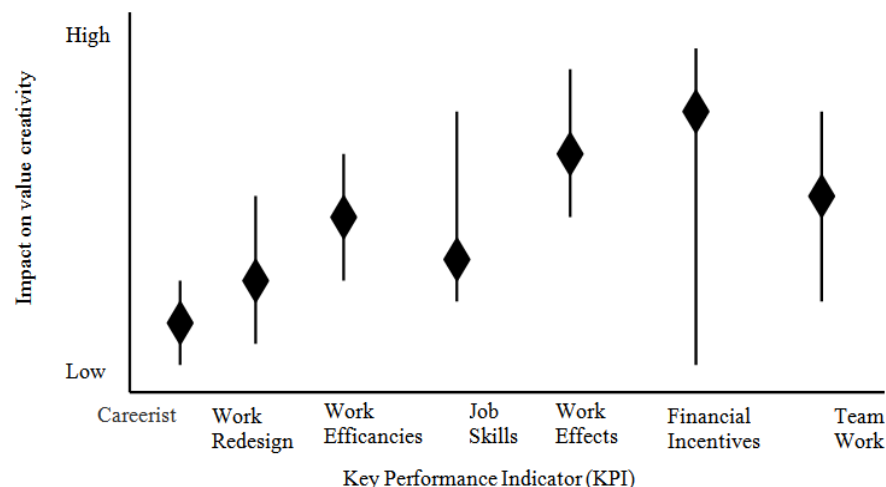


Fig. 1: Impact on value creativity by key performance indicator (KPI)

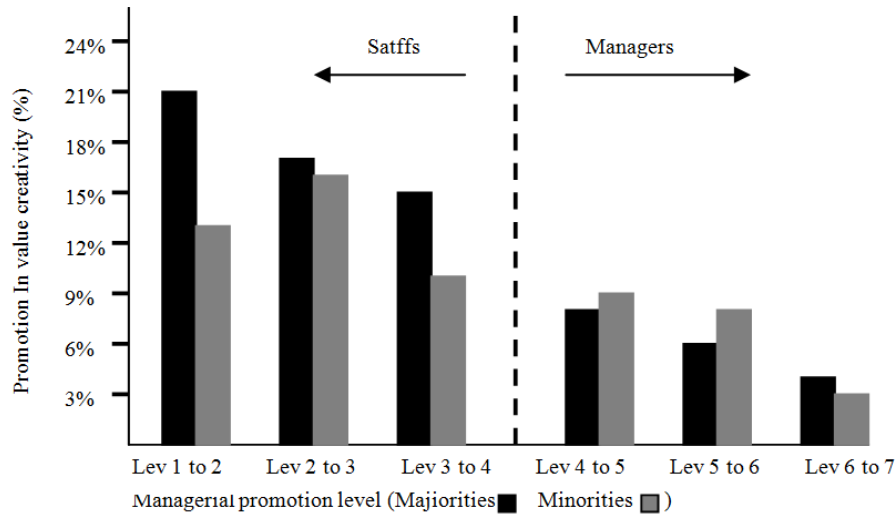


Fig. 2: Managerial promotion gap reflects value differences in qualifications

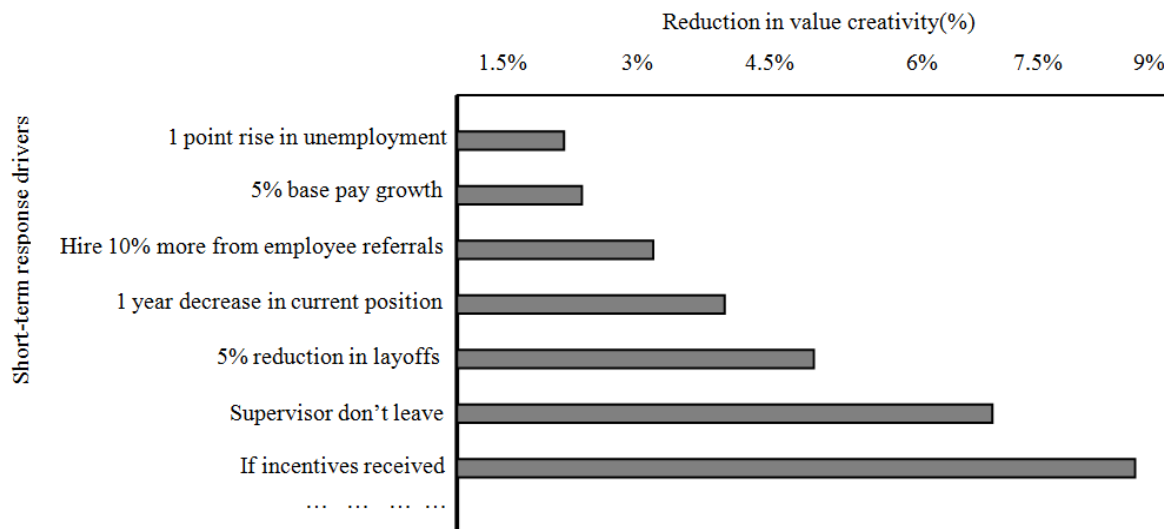


Fig. 3: Reduction in value creativity by short-term response drivers

Therefore, HCM suggests that an employee enters an organization with individual traits and characteristics that may change or adapt depending on short-term response drivers (Including pay growth, current position, unemployment, layoffs, referrals, incentives received), otherwise, the employee value creativity will be reduced (As shown in Fig. 3). The employee's motivations, behaviors and the environment all have an impact on how the employee value creativity. Particularly to HCM, individual employees develop attitudes about the performance appraisal process based on their own motivations as well as their work environment (Van der Stede *et al.*, 2006). Two learned employee behaviors that will impact the effects and efficacies of an employee's performance appraisal are the employee's organizational short-term response drivers and the value creativity the employee perceives in HCM process (Langfield-Smith, 2007).

Identifying value creativity of HCM by using long-term financial performance: In order to identify value creativity of HCM by using long-term financial performance, Global initiatives are launched to calibrate value creativity of long-term financial performance: pay and incentives, talent development, career development, hiring-assuring the right mix of generalists and specialists (Shale, 2008).

Particularly to career development, HCM defines long-term financial performance in two ways: firstly as manifestation of value creativity behaviors and secondly as a cognitive career development to the organization state that HCM can be identified in three ways:

- A strong belief in acceptance of the organization's goals and values.

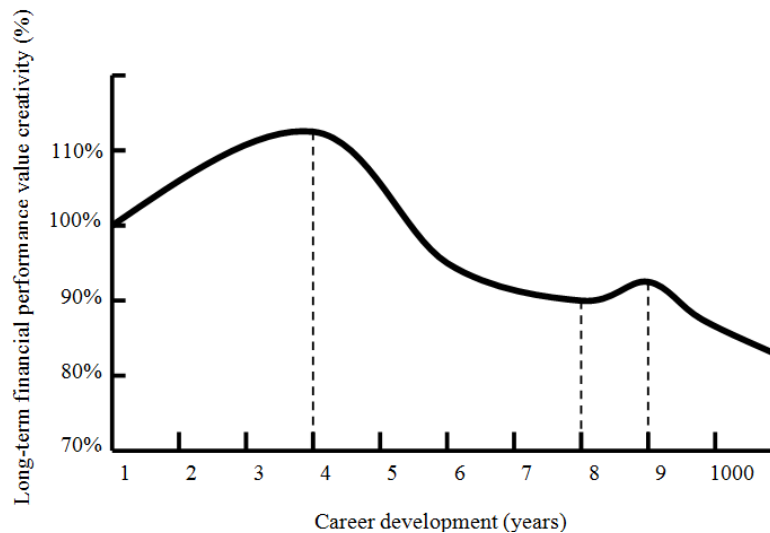


Fig. 4: Downward trend in value creativity by long-term financial performance

- A willingness to exert considerable effort on behalf of the organization.
- A strong desire to maintain membership in the organization.

Therefore, the employee's level of value creativity will therefore positively correlate with the effectiveness of HCM by long-term financial performance (As shown in Fig. 4).

Undoubtedly, today's china is exposed to rapid changes and ever-changing conditions bring a great many of reforms and innovations together (Tayles *et al.*, 2007). Such domestic and international changes and innovations have inevitably affected almost all organizations in china. Based on above analysis, we make up an available approach to HCM: short-term response and long-term financial performance appraisal system, because any organization must be aware of the changes and developments in their internal and external environment.

RESULTS AND DISCUSSION

Today, an organization's performance appraisal system can play a key role in determining the type and value of an organization's culture (Holland, 2003), it is important for an organization to be able to determine what and how performance appraisal system is influencing the HCM in the organization.

The Effects and efficacies of the stage of implementation of HCM on short-term response and long-term financial performance appraisal system:

An organization generally uses performance appraisal system for two broad purposes. Firstly, performance appraisals are used in short-term response such as

promotion, salary allocations and assignments and secondly, performance appraisals are used in long-term financial performance for employee development process such as offering feedback, critiquing performance and setting goals for improvement. With these broad purposes, an organization establish their own unique performance appraisal systems to evaluate and develop their employees. Therefore, it is often important for organizations to evaluate whether their performance appraisal system is accomplishing their desired effects and efficacies.

The purpose of the short-term response and long-term financial performance appraisal system is set by those in an organization who establish the performance appraisal system itself. As discussed above there is generally some type of evaluation portion the performance appraisal that allows for the effects and efficacies to discriminate between employees for the purpose of evaluation develop him or herself. The mix of development and evaluation as well as the areas that are being evaluated and developed is completely on the intent of the performance appraisal process as established by the individuals who establish and administer the performance appraisal system (Hitt *et al.*, 2001).

It is clear that in order to get the desired effects and efficacies the organization must develop, evaluate and reward the desired behaviors. Therefore, in establishing the short-term response and long-term financial performance appraisal system, we should accomplish the desired effects and efficacies of the performance appraisal process. Examples of the short-term response and long-term financial performance appraisal system include: organizational/employee goal alignment, employee motivation, performance assessment, rewarding top performers and developing employees in stated areas.

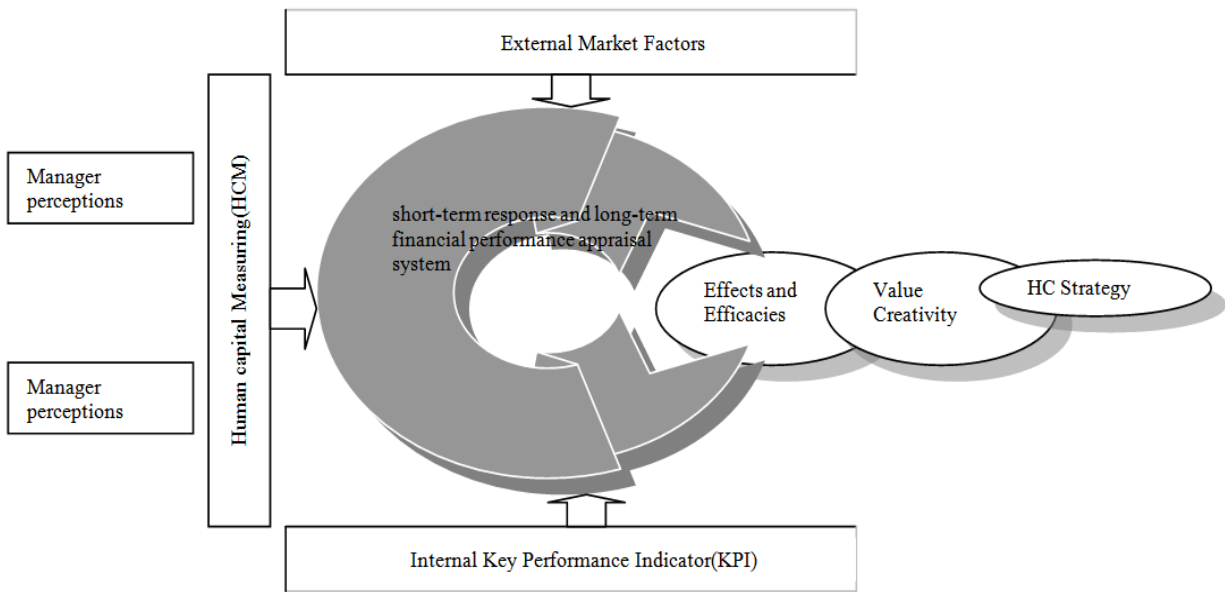


Fig. 5: HCM based on short-term response and long-term financial performance appraisal system

Regardless of the number or mixture of desired effects and efficacies, it is important to recognize that the short-term response and long-term financial performance appraisal system will vary between systems and between organizations (Langfield-Smith 2007).

Helping managers pay attention to HCM taken into human capital strategy: Given the critical roles that HCM play in value creation and achieving strategic objectives, the choice and implementation of HCM is important in HC, performance and strategy, including the role played by managers. It posits that in an organization following a differentiation strategy, their managers will be interested in HC indicators measuring employees' ability to innovate, while in those following a cost-leadership strategy, their managers will be interested in HC indicators measuring employees' value creativity to lower costs. Since strategy is measured by the percentage of sales achieved through differentiation and their managers' interest for employees' innovative skills variable, while suggests the interest for employees' cost-consciousness variable (Widener, 2006). Thus, their managers seem to be in favor of a "fit" between human capital strategy and the type of HCM to implement.

In order to capture the effects and efficacies of the performance appraisal process, it is important to look HCM. The managers and the employees are typically the two individuals involved in the system. In capturing what leads to a successful performance appraisal system, human capital strategy must be taken into consideration. We suggest there are managers and employees' cognitive perceptions that will influence the effects and efficacies of HCM. The results also confirm

that HCM is consistent with the strategy they perceived to be in place in their organizations (Bontis, 1998).

Therefore, while strategic positioning of human capital in organizations (profit-organizations such as enterprises and non-profit organizations such as universities) in the 21st century, felt their managers obliged to establish HCM based on short-term response and long-term financial performance appraisal system in china (As shown in Fig. 5).

CONCLUSION

Undoubtedly, it seems now inevitable that HCM within organizations (profit-organizations such as enterprises and non-profit organizations such as universities) should keep pace with the innovations in national and international studies as well as social, politic and technologic changes. Given the critical roles that HCM play in value creation and achieving strategic objectives, the choice and implementation of HCM is important in HC, performance and strategy, including the role played by managers. Our results show that the development of HCM based on short-term response and long-term financial performance appraisal system within organizations in china enable an organization to measure and hopefully to manage better its performance. The results also confirm that HCM is consistent with the strategy they perceived to be in place in their organizations and their managers are interested in measuring employees' effects and efficacies, whereas in cost-leader organizations, their managers prefer HC metrics measuring employees' value creativity to manage costs. Thus, based on our results, we believe that HR professionals can contribute to create human capital strategy. At the same time, they

can focus on indentifying HCM based on short-term response and long-term financial performance appraisal system within organizations in china. In sum, there are still promising areas to study if we want to know more about how HCM are related to human capital strategy and how they impact performance and more importantly to be a “pioneer” in such applications.

ACKNOWLEDGMENT

This study was financially supported by the Humanities and Social Sciences project of Department of Education of Hubei Province (No.2012G221), Hubei Polytechnic University, the Construction of key disciplines project (Business Administration-Strategy Management), also thank the reviewers for their detailed comments and suggestions that improved the quality and presentation of this study.

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