Chapter 1
A Multidisciplinary Critical Approach to Measure and Analyze Human Capital Productivity

Marko Kesti
University of Lapland, Finland

Jaana Leinonen
University of Lapland, Finland

Antti Syväjärvi
University of Lapland, Finland

ABSTRACT

The objectives of the article are, to illustrate the complex dimensions of the relationship between human capital management and organizational performance and to provide insight into new methods for organization development. Methods are a combination of several research areas, including system intelligence, tacit signals, quality of the working life index and the theory of human capital production function. This article presents a holistic approach of multi-disciplinary research that emphasizes the complexity of HRM-Performance and explains why, in some cases, human resource development increases business performance, and in other cases not. Development complexity is more difficult when organizational performance is measured by monetary value. The article presents human capital intangible assets' connection to monetary scorecards using human capital production function, which explains and also makes it possible to predict human resource development payback. This article's methods form a skeleton for future research and give fundamentals for effective organization human capital performance development.

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INTRODUCTION

Some previous studies have shown that innovative and comprehensive HRM practices have positive effects on motivation, working climate, productivity and organizational performance (Huselid, 1995; MacDuffie, 1995; Guthrie, 2001). It would also appear evident that within a knowledge-based economy it is possible to achieve a sustainable competitive advantage through more efficient and systematic human capital management. In this ideal approach, the relation between performance and HRM practices is positive. However, it is difficult to demonstrate that this relation is actually causal. Human capital performance is a complex phenomenon that includes factors of non-linearity, unpredictable cause-effect relationships, and multiple interactions (Becker & Gerhart, 1996; Hazy, Goldstein, & Lichtenstein, 2007; Stacey, 2010). That is, informal organization with its complex practices and norms of behavior has a key role to play in the relationship between HRM and performance.

Due to complexity, quick or simplified solutions often tend to have negative effects on performance, and there can be a strong disconnect between the ideal aims and practices of HRM and the reality experienced by employees (Truss, 2001). Paradoxes and contradictions are inevitable features in this relationship, and very few organizations manage to gain a competitive advantage through human capital management. Fleetwood and Hesketh (2010) argue, that in order to understand the complexity of the organizations and the full range of issues that influence individual performance, researchers should attempt to open up the "black box" of causal relationships between human resource components (X) and units of organizational performance (Y).

Consequently, arguments have been raised in recent years that strategic human resource management research lacks a strong theory that accounts for the mechanisms by which HR practices influence firm performance (see Guest, 1997; Becker & Huselid, 2006; Fleetwood & Hesketh, 2010). One of the most important functions of human resource management (HRM) is to add competitive business value to an organization (e.g., Pfeffer, 1994; Ulrich, 1997; Guest, 1997; Becker & Huselid, 2006). Thus, along with increasing research linking business scorecards with HR metrics, interest in human resource management and its relation to business performance (HRM-P) has increased as well (e.g., see the Business Scorecard and Strategy Maps of Kaplan and Norton, 1996 and 2004; HR scorecard of Becker, Huselid, & Ulrich, 2001; HCROI of Fitz-enz, 2000; IIP of Cascio & Boudreau, 2008). However, despite a positive correlation between certain HR practices and business performance being identified, there is still not an overarching theory to help explain the phenomenon.

Furthermore, several studies have indicated that greater psychological well-being, the overall quality of an employee experience and functioning at work, is likely to improve the business value of an organization (Wright & Bonett, 2007; Wright & Cropanzano, 2004). However, maximizing employee well-being might not maximize the organizational performance (Van de Voorde, Paauwe, & Van Veldhoven, 2012). Management can often become distressed by not knowing how much time and effort should be invested in the well-being of staff members, as well as in which circumstances such investment is likely to garner sufficient payback. Managers use different methods of inquiry with regard to well-being in order to find out whether a work climate is worse or better compared to others. These methods of inquiry typically have several indexes (e.g., loyalty, trust, respect, fairness, leadership, commitment, performance, and management) and those indexes average values comparison to overall business branch averages. Management can easily become confused in determining which of these indexes are the most important for a business and its improvement, as all of them appear to be quite important. Issues of staff well-being are perplexing, as when sickness and accident costs are low, there is no clear justification in terms of