

**IMPACT OF HUMAN CAPITAL ON FIRM VALUE: A CASE
STUDY OF PAKISTAN**



Submitted By

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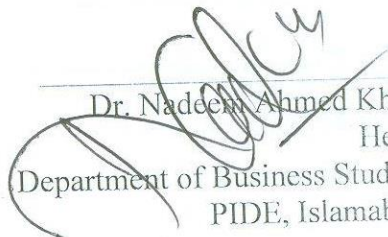
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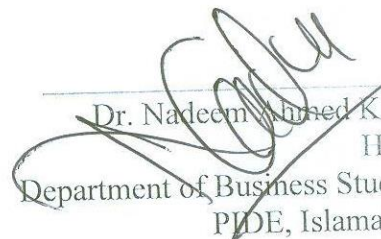

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ABSTRACT

This study estimates the value of Human Capital Index (HCI) with the help of Watson Wyatt HCI Methodology and relationship of six HR practices (1.Total reward and Accountability 2. Collegial flexible workplace 3. Recruiting and Retention Excellence and value creation 4. Communication integrity and value creation 5. Focused HR Service .and value creation 6. Prudent use of Resources) and Market value of Pakistan Stock Exchange Companies (PXE) listed companies. We collect data from 35 sectors of 573 PXE listed companies only 200 companies responded. The study also examines the link between human capital practices and value creation. Smart PLS is used for finding a clear relationship between the usefulness of companies' human capital practices and shareholder value creation. The correlation between HCI and Shareholder Market Value is 14.76%, which is less than the average correlation value of developed countries. The relationship result are significant where HR practices is well performed while insignificant results are due to lack of understanding.

Keyword:

HCI, Shareeholder Value Creation and HR Practices

CHAPTER 1

INTRODUCTION

In this chapter, we discuss the background of the study and its importance, definitions, and arguments on the basis of prior studies. We also discuss literature gap, study's objectives, and study's questions, which we answer with the help of data analysis and results in fourth chapter.

1.1 Background of Study

As world changes the economy have imposed the human resources as key factors for building and maintaining competitive advantage. The new-fangled economy has become largely reliant on the skills and understanding of employees, far more than old-fashioned industrial economy. The simple feature of the modern economy is that the intangible resources have become pockets of corporate performances, with the making of their activity linked completely to human resources. They provide to an organization a reasonable advantage over the other with their knowledge and skills, and with the approach they use them.

However, In well-known developed Economies the importance of human resource management is gaining its competitive advantage. But when considered developing and underdeveloped countries according to current practice in enterprises, it looks that this conception is still not understood enough. Because of these kinds of misunderstandings, the main goal are to point out the importance and value of human resources with its management approach for competitive advantages and by that, for organizational success growth and development.

1.2 Human Capital

The term human capital is made popular by Gary Becker, that speaks of the stock of knowledge, habits, social and personality attributes, included inventiveness personified in the ability to perform labor to produce economic value. This is closely associated with the study of human resource management as set up in the practice of business administration and macroeconomics. In the recent new concept of human capital is gathered specific to the nature of the assignment and human capital is cumulated for the task for valued to many firms demanding the moveable skills. Robert Gibbon gave the concept of task specific human capital in 2004. In many cases the concept emphasizes, human capital is accumulated explicit to the nature of the task (or, skills required for the task), and the human capital cumulated for the task are valuable to many firms requiring the transferrable skills. This conception can be functional to job-assignment, wage dynamics, tournament, promotion dynamics inside firms, etc.

Folloni, G., & Vitamin, G. (2010). The OECD (the Organization of Economic Co-operation and Development) stimulated the governments of progressive economies to squeeze procedures to intensification innovation and information in products and services as an economical path to continuous prosperity. International policies similarly often talk about human capital flight, which is the loss of talented or trained persons from a country that financed in them, to another country which paybacks from their arrival without investing in them.

Human Capital Index measures how well an organization makes use of the ability of an individual to perform and create shareholder value through his/her competencies, knowledge and expertise. An advanced human capital index points out improved management of human capital by the organization. The human capital index can be greater by providing training to increase the expertise and competencies of

individuals, as long as additions to performing individuals, etc. The high-performance has arisen to be encouraged as 'top practice' for owners on the grounds that the follows linked with it yield performance levels above those associated with more traditional workplace and employment relations practices. According to proponents, these practices do so largely by enabling and motivating workers to develop, share and apply their knowledge and skills more fully than do traditional practices, with positive implications for the quality of jobs as well as for performance. Watson Wyatt survey highpoint about bigger human capital practices to High Shareholder Return.

Human capital index conducted in 1990, Watson Wyatt surveyed more before 1999, and more earlier 400 U.S and Canada based- companies that were fully traded, had determinative three year of shareholder overcome and had a least possible of \$ 100 million in revenue market value Human capital index for the Spanish labor force 1977-97 and projects it's over the next decade on the basic of likely demographic development the index is constructed considers both educational attainment resulting from forming schooling and improvements in worker's productivity resulting from experience, "or learning by doing". (Grant 1996) suggested that knowledge is the most critical competitive asset that a firm possesses. Much of an organization's knowledge resides in its human capital. Thus, firms create value through their selection, development, and use of human capital (Lepak & Snell, 1999). Within just a previous work (Nayyar, 1990), implicit that a well-known information asymmetry could express competitive large for diversified function organizations. Since buyers engage it abstract to work with services, they simulate their advanced job providers when interested for suppliers of distinct services. Therefore, business businesses can earn a bulk if they perform multiple needs of their urgent clients. I spectacularly that the expansion to

varied service organizations does not turn out from the economies of degree that are a case for the body of multiproduct organizations.

Bharadwaj, A. S Employing Tobin's q as a amount of performance, we strive to estimate a comparative significance of industry, focus, and share effects in deciding firm performance. Our methods are analogous to those of Richard Schmalensee and, like him, we discover that industry effects be the cause of most of the explained variance. Yet we also find that organization things be in the form of emphasis results, that is, barely varied organizations do better than extensively diversified firms. All of us interpret this finding as regular with profit optimization by organizations with different factor endowments

A dispute about the forthcoming of U.S. economic progress was exploded by released in late summer 2012

1. The debate initiated with my forecast that concluded some indefinite period of time into the future, perhaps 25 to 40 years, the growth of real per-capita disposable income of the bottom 99 percent of the U.S. income distribution would average 0.2 percent per year, compared to 2.0 percent per year in the century before 2007.
2. This forecast set off a conflagration of disagreement with commentary, blogs, and opens about the world.

1.3 Statement of problem

The organizations do not consider the contribution of Human Capital in Shareholder value creation. Generally, firms consider HR activities as expenditures instead of investments. In modern organizations HR plays a vital role in shareholder value creation. Watson, 2012 explain the relationship of Human Capital and shareholder

value and in various studies in 2002 and 2012 and estimate that the HC contribute almost 30% shareholder value.

For this purpose Watson define six dimensions of Human Capital

- 1) Total Reward and Accountability
- 2) Collegial, Flexible Workplace
- 3) Recruitment and Retention Excellence
- 4) Communication Integrity
- 5) Focused HR Services Technologies
- 6) Prudent use of Resources.

In Pakistan firms do not consider above factors of Human Capital for shareholder value creation. This study establishes relationship of these six dimensions of HC with shareholder value after calculation of Human Capital Index.

1.4 Research Question

- Define HCI in organization and its impact on shareholder value?

1.5 Research Gap

In 1999 the first HCI study was conducted by Watson waytt in which he surveyed more than 400 Canada and us based companies that were traded publicly and have at least shareholder return of 3 years, and a least of \$100 million in revenue or market value. We look into a wide range of questions that how the organizations conceded out their human capitals practices, including pay, people development, and communications and staffing.

Watson Wyatt only calculate human capital index but in this study we have to calculate relationship of HR practices with shareholder value creation. These HR practices with shareholder value creation are apply on Pakistan stock market.

1.6 Objectives of the Study

The current study aims of Human capital index is regarding a lead indicator of shareholder value. The specific objective of study are following:

- i) Study importance of HR practices to formulate the value of HCI and their relationship with shareholder value.
- ii) Calculate the correlated value of HCI with shareholder value of listed companies of Pakistan Stock Exchange.

1.7 Significance of Studies

Watson Wyatt only calculate the human capital index in 1990 almost 400 US and Canada based corporations that were publically traded same as Watson we applying this studies on Pakistan stock exchange to check the relationship of HR practices, 1: Total reward and accountability 2: Collegial flexible workplace 3: Recruitment and retention work place
4: Communication integrity 5: Focused HR Services Technology 6: Prudent use of resources with Shareholder value creation.

CHAPTER 2

LITERATURE REVIEW

Human resources are considered as one of the utmost important resources for creation of value and competitive advantage in modern enterprises. The performance and market position of the company are mostly determined by the employee's knowledge, motivation, expertise, dedication and loyalty to the company. Employees also viewed as the human capital of the company can generate other forms of intellectual capital that will have a growing strategic importance for the company in long run. They create patent brands, inventions processes, databases, information systems, training programs and organizational culture. (Durkovic V. , 2009).

People plays a leading role in maintaining and creating its competitive advantages as innovative and creative part of the company. Only the highly trained and properly motivated employees, with continuous and constant learning of new business skills, can meet these kind of challenges forced by the new business environment that is characterized by risk and vagueness. Namely the society survives as good as their companies are effective in providing goods and services for new/modern industrial and post – industrial state (Stangl Susnjar and Zimanji., 2006).

Importance of the human resources was delivered through the many scientific researches taken around the world. Researches like (Mayo,Mc Gregor) contend on the importance of human resources for the success of the company. Likert was clearly about human resources as the most important organizational resource. The concept of "human resource accounting" was developed by him in order to point out the need for an enterprise to take into account the costs and losses which is due to negative attitudes, low motivation, dissatisfied employees and similar vague, subjective variables that are not taken into account, and profit from their improvements (-Siber, 1999)

(Knootnz, 1998) Have explained the Passed impact to thoughtful human resources as the factor for competitive advantage. Beside them, several authors researched and write about the management and HR highlighted the importance of staffing and human resources function (Schultz, 1985) also believed that investment in human resources has some times the special effects of investment in substantial resources. There is a little chance of success if companies were not investing in HR at least as many as invest in other resources

(Vucenovic and Lekovic, 1998) According to the rules of theory and practice of the organization the new employment and introduction of new staff in the structure of the business or other organizational system, is focused on the further development, improvement of efficiency and effectiveness in accomplishing the objectives of automated business systems or other social organizations.

Different studies discuss HRM in different ways (J, 1993) Human resource management called instrumental science and examines management practices and ignoring power games and the conflict of interest that those same practices may induce HRM aim is to elevate the company financial performance.

(Boseli, 2006)On the other hand, human resources is always considered a very important strategic knob in companies. So “managing people” in the organizations doesnt mean that just handling and organizing workforce as the others expenditures we can find in the balance sheet and, what’s more, the outdated business balance cannot account for the ethical values and other intangibles which are important to the success of the enterprise in creating economic values. This shows the significance of human capital and intangible assets. (Hippel, 1984) acumen in considerate internal and external processes, in order to justify the technical processes of production;

organizational knowledge and the formation of learning governments to meet the modest challenges through new work rules; a good reputation for the firm in its environment .

(Freeman, 1984) Escalate the scheme of human management performs by the interrelation to the complex system of actor it is very vital to have a conceptual framework analysis. (Forman, 1999) The work of scholar concerning stakeholder theory in this prospect opened new viewpoints in management theory. The organization is implicit as being the part of political economics system of stakeholders who interact and influence management practices. Each stakeholder tries to optimize and protect his interest. (Hutzschenreuter,T.Kleindient,I , 2006) The strategic process literature and there formulation has been widely recognized. (Bowen, D.E., Ostroff, 2004), Mostly many SHRM works have been examined in HRM contents but in last years some scholar has stressed the importance of analyzing the internal dynamic of HRM strategic process.

(Snell and James , 2017) Discuss that the data from non-managers and managers revealed many direct and interactive effects. Advance manufacturing technology was positively related to the selective staffing, all-inclusive training, developmental appraisal, and externally equitable rewards for operations employees and to selective staffing for quality employees. Total quality was absolutely connected to these same human resource practices in succeed and was also related to the completeness of training for operations employees. Just in time was negatively related to the selective staffing in the operations and too performance appraisal in quality and positively related to staffing in quality. The two- and three-way interfaces have been negative effects as about the human resource management form the human capital perspective. ‘Human’ is a generalized thing; as a name it refers to a kind of existing or being and can also be

adapted to describe an individual's own singular identity. 'Capital' refers to wealth and the accumulation of value. To say that both *human* and *capital* are metaphysical entities is to suggest a paradoxical arrangement in which there is in fact no tangible 'human' or 'capital', even though it is commonly presumed that both terms signify things for which there is empirical evidence each term signifies a kind of value. (Snell and James, 2017).

The relationship between human capital practices & value creation were conducted by (Wyatt, 1990) identifies a clear association between Effectiveness of company's human capital practices and shareholder value. So in all these process thirty HR practices were related for the betterment of market value.

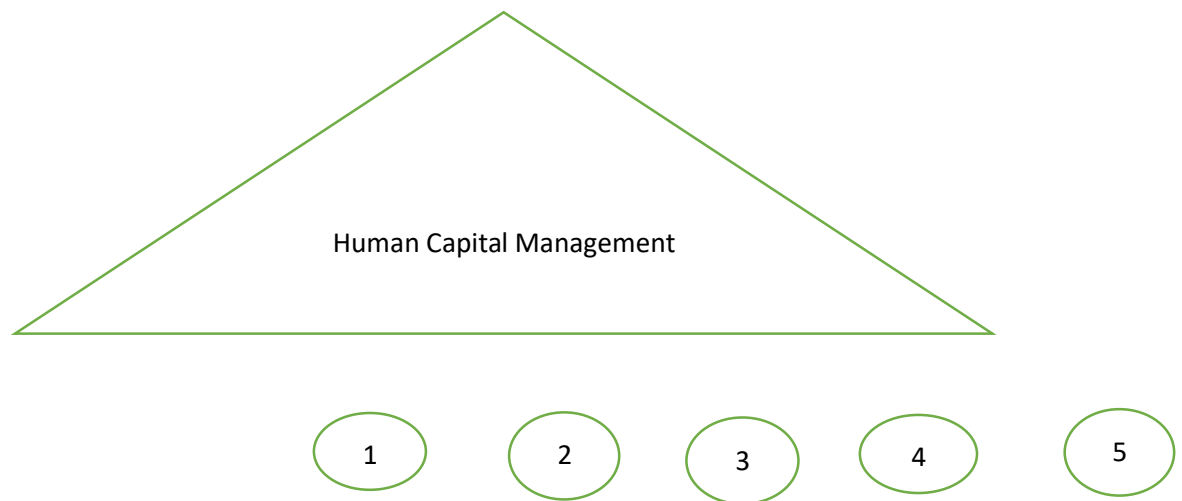
HC is well-defined as the set of employees' knowledge skills and abilities" (KSAs) and is measured, according to the "rent base view" (RBV,) a source of competitive advantage. He believed that this definition, although is relevant, is yet not complete. He relied on the rent-view (Chadwick and Dabu, 2009) to add the new dimensions to the HC definition.

(Becker and Grehart, 1996) The rent-view gives prevalence to the concept that how employees feel about an organization and its practices. Therefore, we consider necessary to expand the HC definition to embrace a behavioral component. Moreover, we trust on the strategic HRM literature that stresses on the positioning of fit between HR practices and business strategy

The fit component is considered as a third dimension to the HC concept by Becker and Huselid (2006). Furthermore, in today's vigorous environment, adaptability is a must, thus the fourth dimension on flexibility. Finally, the fifth dimension on measurement is drawn from the common theme in the HC literature, namely HR metrics

Thus definition of HC encompasses five dimensions listed below.

- A cognitive component exist in employee KSAs Mayo, 2000; McGregor et al., 2004) A behavioral component exist in employee readiness and ability to arrange those KSAs (Abeysekera and Guthrie, 2005).
- A fit component exist in the arrangement of the cognitive and behavioral component with the strategic necessities (Becker and Gerhart, 1996).
- A flexibility component evaluating the skill for HC to acclimate to different business strategies and generate value at the present and future time (Isaac, Macan et al, 1994).
- A measurement component judging HC's influence to value creation exist in the aptness of the alignment between the cognitive and behavioral approach on one hand while on the other hand is strategic imperatives (Flamholtz, hayton et al, 2003).



Managerial action (HCM) dimensions	Knowledge management	Change Management	Strategic HRM	HRD	HR Matrices
HC Dimensions	Cognitive component	Behavior component	Fit component	Flexibility component	Measurement Component
Organizational Outcome	Developing critical KSA	Developing Positive Behaviors and attitudes towards using acquired KSAs	Aligning KSAs and Behaviors with cooperate and objective strategic	Ensuring continuous learning and adaptability to different business strategies	Ensuring control mechanisms And HC contribution To value creation.

The five-dimensional frame work of HCM indicates that how each of the HC dimension must be managed and outlines the respective organizational outcomes. The power of the proposed HCM framework came from the amalgamation of several distinct ingenuities and advocates for the breakdown of traditional departmental barriers., Human capital management (HCM) is the concept based on my context that is much broader in scope than HRM and its effectiveness lies in the proper integration of many different disciplines, namely SHRM, KM and(Organizational behavior) OB that is reflected, operationally, by the need for a better coordination across various

business departments, most importantly between HRM and Knowledge Management (KM).

As (Currie and Kerrin , 2003) also believe that employee's disinclination to share knowledge with others is critical in decisive the contribution of HR practices help to managing knowledge. Hence the positive implementation of KM initiatives is dependent on well-organized management of human resources. Research indicates that intellectual assets and resources can be used much more efficiently and effectively on the other hand if Organizations can apply KM techniques for leveraging their human resources and attractive their personnel management (Soliman and Spooner, 2000). Furthermore (Garavan et al., 2001). Believed that the value is added to organizations by installing employees' knowledge into KM systems that organizations create and use

The main advices relating to the above:

- KM strategies leverage the cognitive component of HC and allow both tacit and explicit knowledge to be created and shared among employees. This leads to an increase in employees' knowledge, skills and ability to perform the current required tasks, which leads to the development of critical KSAs (Afiouni and feldom, 2010).
- Change management inventiveness force the behavioral component of HC and can upsurge employees' motivation and willingness to arrange their KSAs to attain stated objectives (Isaac et al., 2009; Santos-Rodrigues et al., 2010).
- Strategic human resource management (SHRM) guarantees the fit component of HC and can also ensure that the employees' KSAs and their behaviors are mostly aligned with the company's strategic objectives (Baron and Armstrong, 2007).

- Continuous learning and employee compliance to different business strategies was ensured by HRD that is the flexible component of HC. This means that employees will continue to display the necessary KSAs and behavior's to meet The future (and perhaps different) strategic directions (Gilley and Maycunich, 2000).

HR metrics confirm the size component of HC and certify that the proper control appliances are in place to monitor HC's contribution to value creation (Hayton, 2003).

When 5 dimensions of the HCM framework are appropriately applied, I claim that HC will become, as encouraged in the RBV (Wright et al. 2001) and the rent-based view a source of a sustainable competitive advantage.

In today's business disciplines, the occurrence of HC is set to increase as organizations become extra focused on managing the intangible assets, as senior management becomes more interested in the impact on bottom line results, as technology involves, analysts and investors demand improved information linking to the management of people as a donor to shareholder value (Whitaker and Wilson, 2007).

Now a days most of the companies invest in R&D, employee training according to (OECD). These investments are mostly referred to as IC, are growing and they are contending with the physical and financial capital investments in some countries.

2.1 Human Capital

Gary Becker (1964), In his views the term human capital is determine by education Training, social & personality attributes, included creative abilities to do labor so as to produce economic value. This is related to the HRM as found in practices

of the business administration and macroeconomics. In 2004 Robert Gibbon look at the latest human capital is gathered specific to the nature of task or skills required for the task and the human HC cumulated for the task are valuable to several firms lacking the exchangeable skills. This concept can be applied to job-assignment, wage dynamic promotion dynamic inside firms, etc.

(Dess & Picken 2000), Clear that human capital is usually understood to consist of individual's capabilities, knowledge, skills and the experience of the company's employees and managers, as they are applicable to the task at hand, as well as the capacity to add to this pool of knowledge, skills and experience from side to side individual learning.

(Rastogi 2000), the concept and perception of human capital twig from the fact that there is no ancillary for learning, creativity, and innovation, competencies and capabilities.

Hierarchy has been taken the place of by networks in the last twenty years according to authors like (De Cenzo and Robbins 1996) and the bureaucratic system has been transformed in a more flexible process. What is called control-based management is evolving in a friendlier method in which the communication is the most important tool.

Identify significant changes managers should top in this war of talent era (Barlett & Ghoshal 2002). The toughest mind-set to alter is the longstanding, intensely implanted belief that capital is the critical strategic resource to be managed and that senior managers key responsibilities should center on its attainment, allocation and its effective use. Furthermore without refuting the need for wise use of financial resources, for many companies today's capital is not the resource that constrains growth; human,

not financial,; capital essential be the initial point and ongoing foundation of a successful strategy. in capital-intensive company for instance like General Electric at 10 times its book value, it is seeing something of bigger value than the physical assets recorded in financial accounts so we can talk about the intangible assets as human capital and employee's talent..

(Kiessling and Harvey 2006) identify that when the company is attained, the amount of money paid for the company is usually some numerous of the earnings. This assumption is that the purchase price is much higher than the tangible assets of the company. Normally some percentages of the 'premium' paid by the acquiring company is for the top management team and/or key managers. People detain human capital, intellectual capital; this is considered and valuated by (FitzEnz 1998, 2000, and 2001) as a profit lever in the knowledge economy. People are knowledge lever (Bahra 2001); they have logical capital that is the intangible asset that stays overdue when the employees leave.

For the achievement of competitive advantage this asset can and should be measured as a fundamental asset According to Jac-Fitz-Enz,. This is a valuable resource, a lever to generate organization value. We can talked about the double level of human capital; one is about the single employee while the other one is about the community that represents the whole organization knowledge.

According to Ulrich *et al.* (1999), human capital can be evaluated by the employees competence increased for his/her commitment. Managers can increase employees' results believed the level of employee capability and the usual commitment of the whole workforce. To mark human capital be the most strategic device for attaining competitive advantage, it is essential to understand this intangible is portable,

it does not lose his value throughout the time and it can correlate customer's observation and company values; that's true, for example, for the front-line which can show the company's worth outside the firm. But the most important thing is that human capital can put everything together that was physical assets investments, technology, the new product, distribution structure work thanks to human capital and that is must be a mantra for leaders.

According to Barber (2005), capital-oriented procedures don't help to evaluate what is called "people business", because they will cover weakness and show volatility where it doesn't exist. So, he proposes a people-oriented calculation which uses employee's output in its place of capital productivity (ROI). The average cost of the employees per person employed is equal to the cost of capital. The amount of people employed corresponds to invest the capital amount. For the standard calculation of economic profit can be reformulated - by replacing some basic mechanisms and by using standard algebra - to be more focused on the productivity of people rather than capital. This equation revenues the same result but climaxes the employee-related performance drivers of a people-intensive business that is the amount of strategic adoptions about strategic resources (Barber 2005),

2.2 Human Capital Index

The HCI uses "total returns to shareholder "TSR (is the change in a company's share price above a period, plus bonuses, and is expressed as a plus or minus percentage of the share's initial value.) & the market premium (actions the extent to which the market value of a company surpasses the cost of its assets and was expressed as a percentage of assets).

The key findings are the following.

Recruiting Excellence. Companies that will filled the vacancies sooner condensed the disturbance and lost productivity associated with turnover. Organizations that fill positions quickly within two weeks outclassed those that take longer (around seven weeks) by 48 percentage points (59% t three-year Total Returns to Shareholders [TRS] vs. 11 percent).

Employee Development. The superlative firms take a stable approach to hiring a non-entry-level positions, filling unevenly half of these positions internally, which resulted in a three-year TRS of 56 percent. while on other hands the Firms that fill fewer non-entry-level positions internally (12 percent) tended to have the lowest returns (-2 percent), while those that fill the most (80 percent or more) also had lower performance (32 percent three-year TRS).

Total Rewards Directing pay and the benefit levels above the market is associated with superior shareholder returns. The best organizations also make considerable discrepancies based on performance. Organizations that pay the top performers more than 4.5 times the bonus payout of lower performers earned a three-year TRS of 47 percent, 49 points greater than that of the organizations which make minor distinctions, paying top performers about two times the payout for lower performers. Turnover Management. Firms with the moderate turnover (15%) had a three-year TRS of 43 percent, outclassing firms with higher and lower turnover rates by at least 10 points.

Casalegno C. – Pellicelli M. – The Human Capital Impact on the Shareholder Value Creation Communication, Structure is the most important component of effective and efficient communication. Organizations that will place there internal and external communication functions in distinct departments with separate *directors* had a three-

year TRS of 50 percent, 35 percentage points higher than that of firms which combine these functions in the same department under the same director.

Human Capital Index procedures how well organization makes use of the ability of individuals to performs and create shareholder values through his/her competencies, knowledge and expertise. A higher human capital index indicates improved management of human capital by organization. It has to be measured on a scale of 100. The human capital index can be enhanced by providing training to increase the expertise and competencies of individuals, providing bonuses to performing individuals, etc.

2.3 “Stakeholders” (Shareholder)

“Shareholder is a part of public company through shares of stock while stakeholder has an interest in the preferences of company or stock performance”.

A stakeholder *speak of* to any individual or group that maintains a *stake* in an organization in the way that the shareholder owns shares. Egels (2005), Stakeholder theory is “mostly used to operationalize the query of to whom businesses have a responsibility” somewhat than for what Strategic stakeholder management includes much more than the documentation of groups and deciding whether they should be integrated in the model as separate stakeholders. Egels (2005),

Lepineux (2005), Stakeholder theory be “a genuine theory through a perfectible once. (Waxenberger & Spence 2003), Stakeholder “Management” has become an important conversion of business ethics to the management practice and the strategy.

(Donaldson & Dunfee, 1994), The inspiring research on the stakeholder theory has continued along three, often confused, lines the descriptive, the normative and the instrumental points of view (freeman, 1994) implemented these three interpretations,

Freeman has added “a fourth dimension, the metaphorical use of ‘stakeholder’” which portrays the idea as “a figure in a wider narrative about corporate life”. (Dunfee, 1994)

The functional form of the relationship between brand and shareholder value creation were the key findings of Kerin and Sethuraman (1998). The study used the brand values that were published in Financial World magazine and processes shareholder value creation as the Market-to-book (M/B) ratio of the firms that own these brands. Their sample consists of fifty eight firms with one hundred and forty eight brands for the year 1995 and fifty five, firms with, 143 brands for, the year 1996. They find the positive but concave relationship between brand & shareholder value creation. The basic objective was to assess whether the Financial World’s assessed brand values are associated with share prices and there returns, Simon ,and Sullivan., at all (1993),

Barth et al (1998) addressed the worry of many standard setters about whether the brand values can be anticipated consistently adequate to be recorded on the balance sheet. They study the sample of 1204 brand values from 183 publicly traded U.S. firms during 1991 to 1996.

The authors test the association between

1. First market value of equity and brand value.
2. Secondly, yearly changes in the brand values and annual share returns
3. Thirdly, The results show that the brand values are absolutely related to equally stock prices and returns. The authors prerogative that the “findings from this analysis is inconsistent with the investors and assessing the brand value estimates as knowingly fewer reliable than the other components of book value of equity”.

In addition the “findings suggest that the estimates of brand values are relevant and sufficiently reliable to be reflected in the share prices”.

Accordingly the Interbrand’s brand value estimations are suitable to base a study that will connects brand values to share prices. Numerous factors were behind the rapid spread of the theory, in US and Britain already midway complete the 1980s: defensive against the raiders, the increase in the stock prices and the disaster in pension systems, and the entry of institutional investors in the capital markets. Individually and successively, in the mid-1990s, sort out a mix of other factors, such as globalization, the end of controls on the capital exchange rates, market liberalization and IT help blowout the theory throughout Europe, Latin America and Asia, in that way changing corporate culture and the role of managers. Apart from Britain, whose laws and regulations are very similar to those in the U.S & the spread of the theory was limited because of slower economic growth and numerous other important differences, such as the capital structure, the systems of corporate governance, and the forms in which the benefits of other stakeholders are safeguarded. In Italy and other countries where the “family-run enterprise” is prevalent, the creation of value is clearly limited due to the difficulties for new partners to partake in the capital building and organization of enterprises together with the few family-member shareholders.

If we are ready to accept the creation of value as the primary objective of a firm, then we must also accept the principle that shareholders assign value to what they obtain from there investment from side to side a flow of dividends and they gave value to the extent that dividends pay compensation for the investment risk they are usually willing to accept. “To make best use of shareholder wealth, management must makes, evaluate and select the business strategies that will increase the corporate value” (Morin, Jarrel, 2001).

In particular the more essential principle is that the company only adds value for its shareholders when equity returns exceeded by the equity cost. (Black, Wright, Davies, 2001). Value is made when investment produced the rate of returns greater than that were required for the risks class of the investments.

According to (Copelan, Koller and Murrin 2000) shareholder value is driven by the four factors that are given below:

- 1). first, Increase the return on existing capital; raise investment in positive performance; spread business units.
- 2) Second dissociate from assets from negative performance and spread units to released capital for more productive use.
- 3) Third Extend planning horizon competitive advantage period.
- 4) Fourth Lower the required rate of returns.

2.4. Studies on Human capital impact on shareholder return and firm value

The significance of human capital and its impact on the competitive advantage and on value creation has made escalation up a wide literature; we can read about that from (Ulrich et al 2005). This point of view comes from the grown importance of the value creation management and shareholder value creation; many authors have wrote a lot about this like (Arnold, Davies, 2000) to show how companies which have positive results in the long period are those who pays attention on the shareholder value creation in the every strategic decision.

(Schiemann, 2007). has to create shareholder value suggests thinking about the concept he calls people equity and that concept is lied to talent. These are the three areas that were underlying people equity; alignment, capability and engagement (ACE).

Alignment means going in the similar direction. Capabilities state that whether we have the right talent, information, and resources coming to gather at the moment of truth. Engagement extends beyond job satisfaction or employee commitment; it's when employees become ambassadors for the company, inspiring friends to work there, buy its products, or invest in its stock. (Schiemann (2007)

According to Schiemann, having strong people equity doesn't guarantee the success for the reason that you can still make strategic mistakes; though, without strong people equity, you have a little hope of success. High ACE scores are driven by several factors: the supervisor, the top leadership, the clarity of strategy; a strong set of values; HR systems associated with the business, novelty, erection, communication most importantly teamwork, and unique strategy elements. The complete and correct management indications lead to strong economics-financial results for companies. Thesis supporting the relationship between HRD and financial results have more and more importance (Bassi, McMurrer, 2007), but that's not all hence the human resources best practices impact in a very strong way on value creation (Rappaport 2006).

A new ROI has been determined from Fitz-Enz on (Ulrich, Smallwood, 2005) and on human resource's return on intangibles moreover where intangibles represent the hidden part of the company, the part you cannot see, the shareholder value not determined by financial results. Intangibles are pleasant and increasingly important for the portion of a firm's total market capitalization. Investments in HR practices are able to increase employee's commitment and an increased commitment is a driver to customers commitment which is a driver to profitability (Rucci, Kirn, Quinn, 1998); so the more firms invest in human capital practices on the hand higher is the financial return. Human resources practices shape companies and organizations and the company culture, identity, reputation and brand.

Ulrich and Smallwood (2005) report that a research by the accounting professors Baruch Lev and Paul Zarowin; at the Stern School of Business, New York University, shows that the lapse between earnings and shareholder value has traditionally (1960 through 1990) had been between 75% to 90%. This means that 75 to 90% of the market value of a firm stock price shares unsettled potency be predicted by the financial performance of the firm. Since 1990s this percentage has been dropped about 50% in both up and down markets. This means that an increasingly big portion of the market value of a firm is not directly tied to present earnings; it is tied to what the financial community calls “intangibles.” Intangibles signify the value of an organization not directly derived from physical assets (Ulrich and Smallwood 2005).

Architecture of intangibles are proposed by Ulrich and Smallwood. The framework has four basic levels: firstly, maintaining promises, secondly compelling strategy, thirdly aligned technical competencies and fourthly building value through organization and people. This architecture is much more progressive. Possession of promises is what builds trust and that delivers credibility, so it has to come first. With trustworthiness, right-hand leaders can visualize a future state that captures thoughts and makes enthusiasm, which means they can hope to bring it into the existence. An organization's capabilities are the deliverables from the HR work. These capabilities give investors' confidence (or lack thereof) in future earnings and increase (or decrease) market capitalization. HR professionals who linked their work to capabilities and who then find ways to communicate those capabilities to investors deliver shareholder value. A typical list of capabilities includes: talent, speed of change, shared mind-set, accountability, collaboration, learning, and leadership.

HR professionals (Ulrich, Brockbank, 2005) must do six basic actions to connect their job to shareholders value, so they must:

1. Become literate about the shareholders and about the reason why they are capitalizing their money in the firm.
2. Understand the importance of the intangibles
3. Create human resources practices leads the increasing of intangibles
4. Understand and sponsor, the importance of intangible on total shareholder return (TRS)
5. Plan and put in. practice an intangibles audit.
6. Align HR practices, and shareholders expectations.

2.5 Discussion about Human capital index by Watson Wyatt:

Watson Wyatt conducted a study in 1999 in which they served more than 400, U.S and Canada based companies that were publically traded and had at least three years of shareholder return and had a minimum 100 million revenue or market value then that responses were matched to the financial measure including market value. Then he investigates the relationship between human capital practices and value creation and run a series of multiple regression analysis were conduct. Then he identified the clear relationship between efficiency of the company human capital practices and shareholder value. The Watson Wyatt toiled out an index of 20 institutes that takings the guesswork out of human capital practices. Meanwhile the study's inception in 1998, the WW research has drawn a clear relationship between HR practices and firm performance. These findings are present in The Human Capital Index Report were interesting. First, companies with superior human capital practices can create considerably more shareholder value than companies with average human capital practices. Greater human capital practices will prevail and regardless of the economy. The same key practices that are associated with higher value show up in bull and bear and flat markets.

The organizations with strong human capital practices create superior shareholder value was confirmed by the HCI report in 2005. The 2005 Watson Wyatt Human Capital Index survey asked organizations to provide comprehensive information on their human capital budgets, programs and policies and focused on practices that could be measured objectively. Recruiting Excellence, Employees development, Reward management, Turnover management and Communication. Those key tools for Watson Wyatt that ARE asked to interviewed firms' information about their human capital budget, programs and policies. The 147 organizations that completed the survey represent all major North American industries. Average company size was \$6.4 billion in revenue and Were 15,400 employees. The Human Capital Index uses TSR is the change in a company's share price above a period OF TIME plus dividends, and is expressed as a plus or minus percentage of the share's opening value. and the market premium (measures the extent to which the market value of a company exceeds the cost of its assets and is expressed as a percentage of assets). The key findings are the following.

Recruiting Excellence. Companies that filled the vacancies faster reduced the disturbance and lost productivity associated with turnover. Organizations that fill positions quickly within 15 days are outperformed those that take longer (around seven weeks) by 48 percentage points (59 percent three-year Total Returns to Shareholders [TRS] vs. 11 percent). Employee Development. To on hiring non-entry-level positions the best firms take a balanced approach, filling jaggedly half of these positions internally, which resulted in a three-year TRS of 56 percent. Firms that fill rarer non-entry-level positions internally (12 percent) tended to have the lowest returns (-2 percent), while those that fill the most (80 percent or more) also had lower performance (32 percent three-year TRS).

Total Rewards. Targeting the pay and advantage levels directly above the market is related Or allied with superior shareholder returns. The best organizations also make considerable divisions based on performance. Organizations that pay top performers more than 4.5 times the bonus payout, of lower performers earned a three-year TRS of 47 percent, 49 points higher than that of, organizations which made the smaller distinctions, paying top performers about two times the payout for lower performers.

Turnover Management. Firms with reasonable turnover 15 % had a three-year TRS of 43 percent, outperforming firms with higher and lower turnover rates by at least 10 points.

Communication Structure the main component of the effective and efficient communication. Organizations that place their internal and external communication functions in distinct departments with isolated directors had a three-year TRS of 50 percent, 35 percentage points higher than that of firms which had combine these functions in the same department under the same director.

The importance of the human capital and its impact on competitive advantage and on value creation has made rise up a wide literature; we can read about that from Ulrich et al (2005).explain point of view comes from the grown importance of the value creation management and the shareholder value creation and sevral/ many authors have wrote a lot (Arnold, Davies, 2000; Ashworth, 1999;) to show how companies which have a positive results in a long period are those pay attention on share- holder value creation in every strategic decision.

2.6 Dependent Variable

2.6.1 Shareholder Value Creation

The management principle had been also known as under value-based management, states that management should first and primary consider the interests of shareholders in its business actions. Although the legal evidence of a publicly operated company is that the executives are obligated to maximize the company's profit, this does not imply that executives are legally obligated to maximize shareholder value.

The concept of make the most of shareholder value is frequently highlighted in opposition to supposed examples of CEO's and other management actions which enrich themselves at the expense of shareholders. Examples of this include acquisitions which are dilutive to shareholders, that is, they may cause the combined company to have twice the profits for example, but these might have to be split amongst three times the shareholders.

As shareholder value is difficult to impact directly by any manager, it is usually broken down in components, so called value drivers. A widely used model comprises 7 drivers of shareholder value or giving some guidance to the managers:

- a) Revenue
- b) Operating Margin
- c) Cash Tax Rate
- d) Incremental Capital Expenditure
- e) Investment in Working Capital
- f) Cost of Capital
- g) Competitive Advantage Period

Considering the some of these elements also make it clear that the short term profit maximization does not necessarily increase the shareholder value. Particularly, the competitive advantage period takes care of this because if a business sells sub-standard products to reduce cost and make a quick profit, it damages its reputation and therefore destroys competitive advantage in the future. The same holds true for businesses that neglects research or investment in motivated and well-trained employees. Shareholders, analysts and the media will frequently find out about these issues and therefore reduce the price they are prepared to pay for stocks of this business. This more detailed concept therefore gets cleared of some of the issues (though not all of them) characteristically related with criticism of the shareholder value model.

Based on these seven components, all tasks of business plan shows how they influence shareholder value. A bulging tool for any department or function to prove its value are so called shareholder value maps, that link their activities to, one or several of these seven components. So, one can find "HR shareholder value maps", "R&D shareholder value maps", and so on.

2.7 Independent Variables

2.7.1 Total Reward and Accountability

In past years, the phrase “compensation and benefits” has assumed way to “total rewards” which incorporates not only compensation and benefits, but also personal and professional growth opportunities and a motivating work environment (for example the recognition, valued job design, and work/life balance). What explains to this wider view of rewards. Firstly, stiffer competition in business has made it problematic for cost-conscious organizations to offer higher wages and more benefits each year. Employers have had to find alternative forms of rewards that cost less to implement but that still motivate employees to excel. Secondly the organizations have become much further

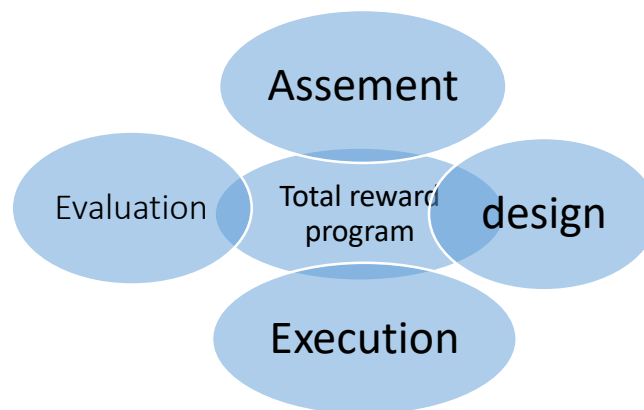
strategic in their management of human resources (Barney & Wright, 1998)—including integrating their various human resource functional areas. For example some of the companies now treat compensation and training as a rewards that must be managed unruffled rather than separately by different HR teams. The “Total Rewards Strategies” chart sheds light on the inclusive range of strategies that can make up a total rewards program. To implement the total rewards systems and the strategies effectively the organizations must follow a disciplined process (Ledford & Mohrman, 1993), which is depicted in “Implementing Total Rewards Program: Four Phases” (see below). The process starts with assessment. In this phase, the project team gathers data to evaluate the effectiveness of the organization’s current total rewards system.

The data that will guide the strategy phase, during which the team identifies and analyzes possible reward strategies. In the execution phase, total reward strategies are put into the operation. Last, the team evaluates the effectiveness of the strategies that have been executed well. Noticeably, implementing a new total rewards program is similar to launching out any large-scale transformation initiative. Research on organizational change can provide some guidance. One study inspected a 12-plant manufacturing division of a multibillion-dollar food-products firm (Ledford & Mohrman, 1993).

The firm used a book learning model to guide the change effort. Firstly, it is laid the foundation for change by educating the stakeholders about the involvement and then clarifying the firm’s values and diagnosing organizational systems relative to the values of the organization. Secondly the firm designed, implementation, and evaluation changes to those systems. The cycle was continually repeated as they are illustrated in the diagram below. This process directed to bottomless learning within the organization. To evaluate the results of this learning model the researchers collected

attitudinal data at two points in time. Findings of the data suggested that the change initiative had directed to rises in job variety, superintendent participation, influence over planning and scheduling and many other positive outcomes. The following sections take a closer look at how you and other HR professionals in your organization can take a total rewards initiative through each of the four phases in the implementation process.

Figure 1: Implementing a Total Rewards Program: Four phases



From the employee's viewpoint that the main change occurring in numerous organizations is an increased level of employee empowerment. Employees now make decisions that were once made in a far-off administrative suite or in the plant manager's office. In this kind of environment the importance of hierarchy and flush the hierarchy itself disappears as organizations move to structures.

Such kind of changes put jobs into broad bands to further encourage the exchange and mutual accountability. Organizations need to devise new approaches to the career management so that the focus shifts from the positions one holds to the results produced.

“Organizations will take comfort in understanding that it can take several years to put a completely reshaped culture and reward system in the place.”

One of the advantage of empowering employees is their presence in designing and implementing reward systems. Once upon a time these systems were designed by experts. Far ahead, they were designed by a team of managers.

Now a days few companies have begun taking a far-reaching approach by involving large segments of the work force at their critical points. This wider involvement has resulted in higher quality plans and much greater employee buy-in and acceptance of these plans than ever before. After all, employees often resent change that's thrust upon them. They're more likely to cuddle the change when they're part of the process.

2.7.2 Collegial, Flexible Workplace

Profound challenges in higher education--fiscal constraints, escalating competition, demands for greater accountability, growing enrollments, increasingly diverse faculty appointments, and the continuous expansion of new technologies--are transforming the careers of faculty. Written for educators, administrators, policy makers, and anyone else concerned with the future of higher education, *Rethinking Faculty Work* shows how changes in higher education are transforming the careers of faculty and provides a model that makes it possible for all faculty to be in a position to do their best. This important resource offers a vision of academic workplaces that will attract superb faculty committed to fulfilling the missions of the universities and colleges where they work. *Rethinking Faculty Work* highlights an overall framework and five key elements that are essential to the work experience of all faculty members--equity, academic freedom, flexibility, professional growth, and collegiality. Throughout the book, the

authors include recommendations for how colleges and universities can use the framework to rethink their academic workplaces.

There is a negative relationship between share value and collegial flexible work place.

2.7.3 Recruiting and Retention Excellence and value creation

(Schweitzer, L., & Lyons, S. 2008). In the battle for high-value talent, managers need to think like marketers, creating job offerings and employment relationships that provide mutual value for firms and their employees. The 3-stage framework for the application of marketing techniques to the recruitment and retention of high-value employees. In the first stage, the 4Ps of the marketing mix are used to create compelling job offerings that attract high-value employees. In the second stage, firms use relationship marketing concepts to build long-lasting employment relationships that create mutual value for the firm and its employees. The third stage involves the outcomes of high-value employment relationships, which include greater employee commitment and satisfaction, which then lead to greater employee advocacy of the firm and lower levels of employee turnover. The ultimate proposed outcomes of this approach are increased performance and stability of the firm. So, there is a positive relationship between share value, recruiting retention and excellence.

2.7.4 Communications integrity and value creation.

(Váncza, J., & Monostori, L. 2009). Discussion of the nature of value considering a history of axiology, design problems of artifacts, social dilemmas, network externalities, and sustainability. Promising academic methodologies are presented herein with emphasis on Trans disciplinary and synthetic approaches. Value creation models based on Emergent Synthesis and co-creative decision-making are

presented. This paper involves some important study examples of service and production toward sustainable value creation in society.

There is a negative relationship between share value and communication integrity.

2.7.5 Focused HR Service Technologies and value creation

We observe that in e-business new value can be created by the ways in which transactions are enabled. Grounded in the rich data obtained from case study analyses and in the received theory in entrepreneurship and strategic management, we develop a model of the sources of value creation. The model suggests that the value creation potential of e-businesses hinges on four interdependent dimensions, namely: efficiency, complementarities, lock-in, and novelty.

There is a negative relationship between share value and focused HR services technology.

2.7.6 Prudent use of Resources

(Joshi, N. V., and Gadgil, M. 1991). Discussed about the model of utilization in a premarket economy of a biological resource population by a social group which is the sole owner of the resource. The group is assumed to be motivated to derive as large a harvest as possible while at the same time attempting to keep the risk of extinction of the resource population at a low level. It is shown that this can most likely be achieved through total protection of the resource population in parts of its range set aside as refugee. Many primitive societies indeed follow this strategy, which deserves to be given more serious attention as a tool for the management of renewable resources (Gadgil, M. 1991).

There is a positive relationship between share value and prudent use of resources

CHAPTER 3

METHODOLOGY

3.1 Data and Variables

The data collected for study involve the primary survey included forty nine questions for 573 leading Pakistan stock market listed companies. The data will choose because of their HR practices and organizational impact on shareholder value. Using Likert 1 to 5 scale is used for measurement a one standard deviation increase. Most answers to HCI question are on a 1-5 scale, so significant change is a one scale point movement from a 1 to a 2, to a 3, and so on

Following are the six dimension listed below.

- 1) Total reward & Accountability
- 2) Collegial, Flexible Workplace
- 3) Recruitment and retention Excellence
- 4) Communication integrity
- 5) Focused HR Services Technology
- 6) Prudent use of the Resources.

Our Human Capital Index study allowed us to compare one set of companies at two points in time to analyze the correlation. Additional, we originate that superior HR management leads financial performance to a much with better extent than financial outcomes lead good HR. so We are also able to identify positive HR practices as the value drivers and throw the warning flag in front of the some conventional practices actually related with the decrease in the financial performance.

3.2 Population

All listed companies of Pakistan stock exchange. We tried to collect information from all listed companies, but 200 company's respondents which included 35 sectors.

Following sector respond

Table 1: List of Companies Listed At Pakistan Stock Exchange

No	Company Name
1	Automobile Assembler
2	Automobile Parts And Accessories
3	Cable And Electrical Goods
4	Cement
5	Chemical
6	Close And Mutual Funds
7	Commercial Banks
8	Engineering
9	Fertilizers
10	Food And Personal Care Products
11	Ceramics And Glass
12	Insurance
13	Investment Banks / Investment. Cost. / Securities Cost.
14	Jute
15	Leasing Companies
16	Leather And Tennaries
17	Miscellaneous
18	Oil & Gas Exploration Companies
19	Oil & Gas Marketing Companies
20	Paper & Board
21	Pharmaceuticals
22	Power Generation & Distribution
23	Real Estate Investment Trust
24	Refinery
25	Sugar & Allied Industries
26	Synthetic & Rayon
27	Technology & Communication
28	Textile Composite
29	Textile Spinning
30	Textile Weaving

31	Tobacco
32	Transport
33	Vanaspati & Allied Industries
34	Woollen
35	Modarabas

This study has two parts.

1. Calculate HCI by Watson Wyatt by the correlation method the correlation between HCI and shareholder value creation and human capital companies of 6 variables.
 - Total rewards and accountability
 - Collegial flexible workplace
 - Communication integrity
 - Recruiting and retention Excellence
 - Focused HR Services Technologies
 - Prudent use of resources

The variable measured by adopted scale .Most answers to the HCI questions are on a 1 to 5 scale, so the significant change is the one scale-point movement from a 1 to a 2, a 2 to a 3, and so on.

3.3 Value Creation

In this study one organization is a single sample because we calculate correlation of shareholder value of organization and Beta (Slope) of each question of instruments. . Moreover shareholder value is calculated by average market value of May and June daily share value. .At second stage: There are six independent variable of HR Practices and 1 dependent variable shareholder value. The dependent variable is measured by secondary data and independent variable are measured by primary data through the adopted scale of Watson. . In this study one organization is a single sample because we

calculate correlation of shareholder value of organization and Beta (Slope) of each question of instruments.

Step 1:

Outer model and measurement model:

$$X_1 = \alpha_1 IV_1 + e_1$$

$$X_5 = \alpha_5 IV_1 + e_5$$

$$X_6 = \alpha_6 IV_2 + e_6$$

$$X_{10} = \alpha_{10} IV_2 + e_{10}$$

$$X_{30} = \alpha_{30} IV_6 + e_{30}$$

In step one the researcher has designed 30 different econometric outer and measurement models with different control variables expressed as $X_1, X_2, X_3, \dots, X_{30}$ as dependent variables. The $IV_1, IV_2, IV_3, \dots, IV_{30}$ shows the control variables.

..Step 2:

Structural regression model and inner model

Based on the above outer and measurement models the structural regression model and inner model of the study is stated below:

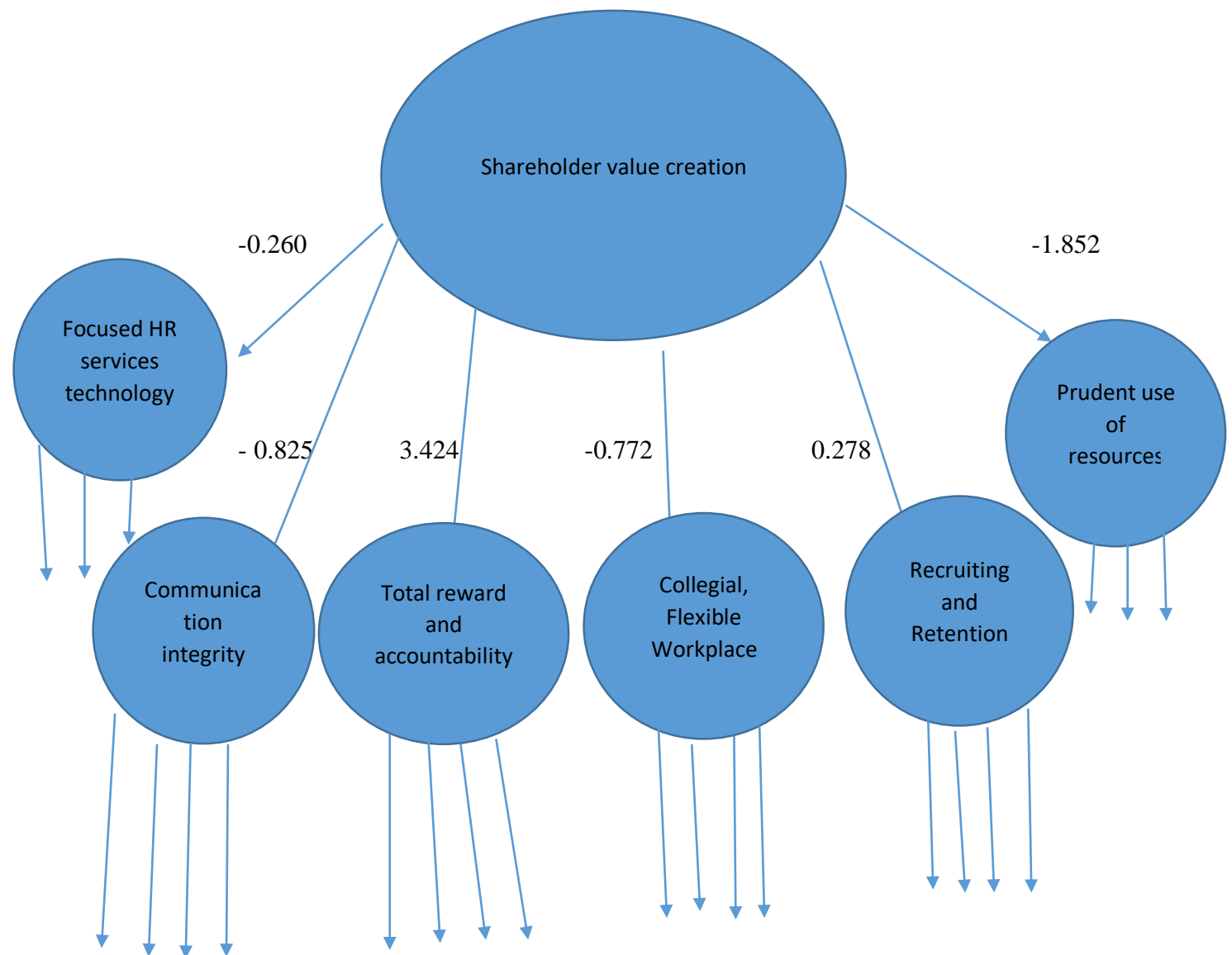
$$DV = \beta_1 IV_1 + \beta_2 IV_2 + \beta_3 IV_3 \dots \dots \dots + \beta_6 IV_6 + e \quad \dots \dots \dots (1.1)$$

3.5 Hypothesis

Table 2: Hypothesis

No	Dimension	Result
1	There is a positive relationship between share value and total reward and accountability	Supported
2	There is a negative relationship between share value and collegial flexible workplace	Not Supported
3	There is a positive relationship between share value and recruiting retention and excellence	Supported
4	There is a negative relationship between share value and communication integrity	Not Supported
5	There is a negative relationship between share value and focused HR services	Not Supported
6	There is a negative relationship between share value and prudent use of resources	Not Supported

3.6 Construction of Variables



The study investigates HCI is to be a part of Shareholder and value Creation, in this study we are using SMART PLS. with graphical user interface for variance based

structural equation model (SEM) using the partial least squares (PLS) path modeling method.

Structural Equation Modeling (SEM) is the 2nd generation multivariate data analysis method that is often used in the marketing research because it can test tentatively reinforced linear and colorant causal models (Chin, 1996; Haenlein & Kaplan, 2004; Statsoft, 2013). With SEM the marketers can visually inspect the relations that exist among the variables of the interest in order to prioritize resources to better serve their customers. The fact that unobservable, hard-to-measure latent variables1 .it can be used in SEM makes it ideal for attempting business research problems.

There are two sub models in a physical equation model; the internal model agrees the relationships between the independent & dependent latent variables, while the outside model specifies the relationships between the latent variables and their experiential indicators. In SEM, a variable is either exogenous or endogenous. An exogenous variable has path arrows pointing centrifugally and none foremost to it. Meanwhile, an endogenous variables.

CHAPTER 4

RESULTS AND DISCUSSION:

Section 4.1 describe the Correlation between HCI and shareholder value. Further this chapter elaborates the estimated results of our 6 dimensions of the study.

4.1. Correlation between HCI and shareholder value

Correlation between HCI and Shareholder Value	2018 HCI Score \times 2018 financial performance	0.1472
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We have HCI scores and the financial performance information for the correlation analysis. The best we could offer at the time was that the relationship probably moved both ways. But our latest study incomes the missing critical data. 200 companies participated in both the original and the follow-up HCI studies. We have the HCI scores and the financial performance information for 2018. If better thn the financial performance is what creates superior Human Resource practices, if, in fact that the way companies manage their human capital is what drives financial success, Correlation A 0.1472 statistically significantly.

Furthermore, a cautious inspection of all the data shows that for every available correlation calculated over time, the relationship between current Human Resource practices and upcoming financial routine is more stronger than the relationship between current financial outcomes and future Human Resource S practices, but for now the weight of the evidence clearly favors human capital practices as a leading rather than a lagging indicator of business success.

The study explain the relationship between human capital index firm performances with a specific focus on the shareholder value creation the findings are

presented here in tables and charts where necessary. Out of the forty questionnaires administered during the data collection process.

Table 3: Link key between human capital and shareholder value creation

Practice	Impact on market value
Total rewards and accountability	5.38%
Collegial, flexible work placed	3.10%
Recruiting and retention Excellence	3.74%
Communication integrity	2.4%
Focused Human Resource Service technology	1.21%
Prudent use of Resources	-3.45%

In adding to providing the evidence that a good human capital management matters, the HCI study shows exactly which HR does intended the ever increasing options. This year study identified the forty nine HR practices that will play the greater role in creating shareholder value. We have divided these practices in the six dimensions. The research enumerates exactly how much the upgrading in each of the practices could be expected to increase the company's market value. So, company that makes a significant improvement all practices total reward and accountability see it value to improve by 5.38% included 16 HR practices. Additionally one dimension "prudent use of resources" identified 6 practices that diminish share value.

The key link between Human Capital and Shareholder Value Creation

4.3. Total reward and Accountability: 5.38%

“Total Rewards & Accountability “. Companies can achieve a 5.38% increase in share market value. This market value is calculated with the help of adopted questioner. Questioner consists of 16 sub questions. The Average of 16 questions is 5.38 that shows the total reward and accountability.

Table 4: Total reward and Accountability

Description	Average
Health benefits were important for recruiting and retention	0.32%
High percentage of the company stock owned by employees	0.33%
Defined contributions and defined benefits plan, combined, important for the recruiting and retention	0.31%
High percentage of companies stock owned by senior managers	0.34%
Pay is linked to company's business strategy	0.34%
High percentage of the employees eligible for stock options	0.33%
Company promotes most of the competent employees	0.34%
High percentage of the employees participate in incentive/profit and sharing plans	0.35%
Defined benefits plan important for recruiting and retention	0.33%
Employees have choice regarding benefits	0.34%
Defines contribution plan important for recruiting and retention	0.32%
Top performance receives better pay than average performance	0.34%
Company positions benefits above the market	0.32%
Company help poor performance improve	0.34%
Company position pay above the market	0.33%
Company terminates the employee who continue to perform poorly	0.33%
Total reward and accountability	5.38%

4.4. Collegial flexible workplace 3.10%

Great leadership that encourages the employee's contribution combined to produce a "collegial, flexible workplace" and is 3.10% increase in the shareholder value for any company making a significant advancement in this area. Leader plays a main role in the establishment of the collegial company culture. This market value is then calculated with the help of adopted questioner. Questioner consists of 8 sub questions. The Average of 8 questions is 3.10 that shows the collegial flexible workplace.

Table 5: Collegial flexible workplace 3.10%

Company showed flexibility in the work arrangements	0.41%
Company has higher employee satisfactions	0.36%
Trust in the senior leadership is actively engendered	0.35%
Managers demonstrate the company's values	0.40%
Company's culture encourages teamwork and corporations	0.39%
Company avoids using titles to designate status and authority	0.38%
Company avoids varying perquisites by positions	0.37%
Company avoids varying office space by position	0.41%
Collegial, flexible workplace	3.10%

4.5. Recruiting and Retention Excellence 3.74%

Recruiting and Retention play a vital role still serious element for the business success and 3.74% has dropped for its slot as the solidest dimension in Pakistan. When we talked about the recruiting, which is unquestionably still much critical, the researches shows that the investment of time more than pays for itself. Companies that step up their effort to use formal strategies align them with business plans. This market value is calculated with the help of adopted questioner. Questioner consists of 10 sub

questions. The Average of 10 questions is 3.74 that shows the Recruiting retention and Excellence.

Table 6: Recruiting and Retention Excellence

Company has the low volunteer turnover of managers/professionals	0.35%
Company has low voluntary turnover of the employee in general	0.35%
Company highlights job security	0.37%
Formal recruiting strategy exists for critical –skill employee	0.39%
Recruiting effort are aligned with the business plan	0.36%
Employee have input on hiring decisions	0.38%
Company has established reputation as a desirable place to work	0.38%
Systematic new hire orientation exits	0.38%
Hourly /clerical new hires are well equipped to perform duties	0.37%
Professional new hires are well equipped to perform duties	0.38%
Recruiting and Retention Excellence	3.74%

4.6. Communication Integrity: 2.4%

The ideas and the solutions that came from the top talent are the key success differentiators in the knowledge economy. Creating an environment where employees can and spirit share their knowledge is crucial. A company that improves its “Communications integrity “can experience the 2.4% of growth in the market value. This market value is calculated with the help of adopted questioner. Questioner consists of 6 sub questions. The Average of 6 questions is 2.40 that shows the communication integrity.

Table 7: Communication Integrity: 2.4%

Employees have relaxed access to technologies for the communication	0.38%
Employees at all the levels gave ideas and offers to senior management	0.39%
Company shares & business plans and goals with the employees	0.41%
High percentage of the workforce participates in the opinion surveys	0.40%
Company shares financial information with employees	0.39%
Company takes action on the employee survey feedback	0.40%
Communications integrity	2.40%

4.7. Focused HR Service and Technologies: 1.21%

One of most interesting finding from our HCI research involves the use of a HR service and technology. Our research showed that if HR group use the new technology for the fundamental improving accuracy, service and cost and effectiveness its pays of 1.21% higher than the shareholder value. But when HR technology was implemented with the less clear, less quantifiable goals in mind enhancing communication and promoting culture the technology is linked to a large decrease in the market value. This market value is calculated with the help of adopted questioner. Questioner consists of 3 sub questions. The Average of 3 questions is 1.21 that shows the Focused HR Services Technologies.

Table 8: Focused HR Service and Technologies: 1.21%

Improving service to employee/manages is a key goal in implementing the HR service technology	0.39%
Reducing cost is the key goal in implementing the HR service and technology	0.42%
Increasing transaction accuracy/integrity is a key goal in the implementing of HR service and technology	0.39%
Focused HR service technologies	1.21%

4.8. Prudent Use of Resources -3.45%

The HCI research directs the companies toward the greatest monetarily rewarding HR practices it also throws a deterrent flag in front of the some practices much-admired by conventional wisdom. We found that three practices in particular has 360-degree review and longer term developmental training and implementing HR technologies with softer goals in mind were often associated with decrease in marketplace value by -3.45%. Thus the market value is calculated with the help of adopted questioner. Questioner consists of six sub questions. The Average of 6 questions is -3.45 that shows the prudent use of Resources.

Table 9: Prudent Use of Resources -3.45%

Enhancing the communication is a key goal in implementing HR services and technology	-0.58%
Cultural change is key goal in implementing the HR service technology	-0.59%
Employees have opportunity to evaluate superiors	-0.58
Employee have all the access to training needed for career advancement	-0.56
Employee have the opportunity to evaluate peers	-0.56
Training programs maintained even difficult economic circumstances	-0.56
Prudent use of the resources	-3.45%

4.9. Path Coefficients

Table 10: Path Coefficients

HR Practices	SV
CFW	-0.772
CI	-0.882
PR	-1.852
RRE	0.278
ST	-0.260
TRA	3.424

4.9.1. Inner model path coefficient sizes and significance

The inner model suggest that total reward and accountability has the strongest effect on Shareholder value creation 3.424

The hypothesized path relationship between recruiting retention and excellence has the strongest effect on shareholder value creation 0.278

However, the hypothesized path relationship between prudent use of resources and shareholder value creation is not statistically significant this is because its standardized path coefficient (-1.852)

The hypothesized path relationship between focused HR services and shareholder value creation is not statistically significant this is because it's standardized path coefficient (-0.260)

The hypothesized path relationship between collegial flexible workplace and shareholder value creation is not statistically significant this is because it's standardized path coefficient (-0.772)

The hypothesized path relationship Communication integrity and shareholder value creation is not statistically significant this is because it's standardized path coefficient (-0.882)

The Result in table 2 shows the collegial and flexible workplace where the Share value is - 0.772 and the market impact is 3.10%. The share value is negative. Thus the growing increasing devotion given to the workplace flexibility in many other work venues and research accomplishments requires a sharp focus on understanding what it is, how it is to be assessed, and how it will relates to other concepts. we have also said that workplace flexibility is more than simply providing a flextime policy or the option to work from home every once in a while its a shared sense of trust and respect between employers and employees, a helpful workplace culture and an ideal sense of control over one's job and working conditions. Though these constructs may be challenging to measure, they are vital components of a complete operationalization of workplace flexibility. Flexibility is considered one of the most powerful drivers According to (Lingle 2005): of retention and engagement today, it is empirically linked to the higher levels of productivity, elasticity and shareholder value, however achieving the workplace flexibility is the most difficult task the work life professional engages in, and success often requires an organization to reinvent its culture. Research on precise flexibility policies is important, and the studies in this superior issue subsidized to a knowledge base that will better inform employers in choosing options that improve both employee outcomes and business needs. However, the tools for achieving flexibility should not be confused with the broader notion of workplace flexibility; implementing

flexible programs alone will not make a workplace flexible. It is essential that we take a holistic viewpoint in defining workplace flexibility, and this wider definition needs to be strongly entrenched in the larger context of organizational culture change. Though, there is an increasing pressure for employers to let employees to work part time in order to meet work and family Community,; Work & Family demands(Barnett & Gareis, 2000). Building part-time work available is one way to offer employees flexibility in how long they engage in work (Baltes et al., 1999).

Over all, part-time jobs always have been lower status jobs with less pays and littler career opportunities than full-time jobs (Barnett & Hall, 2001).

But more recently many of the part-time workers have been chosen (with the support of their employers) to remain in high-status jobs , high paid employment but work less hours per week (Hill, Martinson, & Ferris, 2004). Because of these negative connotations of part-time employment, some will preferably to label it reduced-hours employment (Barnett & Gareis, 2000).

When we talk about discreet use of resources -1.852 negative share value and the market impact is -3.45 .the share value is negative due to this weak performance of the stock market during current fiscal year can be qualified to a number of negative factors including a unstable macroeconomic environment, relatively steady exchange rate, speeding up in the privatization process, downhill inflationary trend, wise monetary policies and strengthened economic growth.(Highlight of the Pakistan Economic Survey2014 to 2017).

Thus it can be eminent that new professional hires were very well equipped to perform their tasks and have a positive total reward and accountability impact on market value 5.38% and also have a 0.278 positive impact on share value recruitments are

designed to support the organizations. But usually the most firms had a reputation among applicants as a desirable place of work. With the huge technological changes happening at the workplace, the focus of attention has been on knowledge workers, to meet the changing needs of the society (Holbeche, 2009; Kuruvilla and Ranganathan, 2010).

The study reveals that the pay is basically used to engage employee's business performance and that people skills were more important to leadership positions than that's why there is a positive Recruiting and Retention impact on 3.74% market value and 0.278 on share value.

The study also reveals that if the employees do not have any input in evaluating their peers employees and do not participate in profit sharing plans that are based on overall firm performance nor is pay linked to firm's business strategy.

But the market reacts negatively to the production of faulty IT in about 50 % of the cases though this market reaction is not statistically significant over an extended period of time and is limited to announcements involving certain types of defects that's why there is a positive 1.21% on the market value and -0.26 in share stock exchange. There was not statistically important negative market antiphon for declaration involving IT product that are vulnerable to computer viruses (i.e IT product that contain computer viruses)(Hovav and D'Arcy2005).

Effective communication act is considered as an advantage of a leader to lead more effectively. So, on the basis of the study of earlier work done by several authors in the past decade, the author has made an attempt to find that how leadership is affected by communication. What all are the main points managers have to keep in mind while communicating with their teams and what are the suggestions to improve communication to make leadership more effective leader. By interacting more

efficiently with the teams and colleagues, a manager can increase his prospective and will be able to get work done by members of his team. Good leaders are always well aware of the fact that productive communication is not a one way process rather then there are two key factors involves which complete communication process: speaking and listening with understanding. They know that they cannot make this process continues until unless they are heard and understood appropriately by their team members. To make this process smooth an effective manager has well planned objectives in his mind which he has assumed to be achieved after communicating. For the achievement of the objectives of the communication leader conceives the opinion, emotions and knowledge level of the receiver and prepare the best posible action to support communication to make others understand the message wants to deliver. He delivers the well-planned messages with persuasion and relates them to the aim and objectives to be achieved with the help of communication. Asking for conformation or understanding of the message indirectly is one of the key note qualities of a good leader. While receiving any message he will always kept his doors open and try to figure out the main idea. Even in case of negative feedback he doesn't lose his heart and take it as an opportunity to learn new things. He always tries to understand the weak points and analyze the usefulness of the communication (Anchal Luthra, 2015). So, communication integrity have positive impact on 2.4 % market value and have negative impact on -0.825 share value.

4.10. Quality criteria

4.10.1. Table

R2	0.053
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The coefficient of determination R² is 0.053 for variable Shareholder value creation. Endogenous latent Variable this mean that the 6 latent variable total reward and accountability, collegial flexible workplace, Communication integrity, Recruiting and Retention Excellence and value creation, Focused HR Service Technologies and value creation, Prudent use of Resources weakly Explain 5.3 % of the Variance in Shareholder value creation.

4.10. Construct Reliability and Validity.

The table given below summarize the reliability of the variables, using measurement tools such that Cronbach's Alpha in descriptive statics .The reliability statics items of HCI variables in data collection instruments is shown below this define actual results of outcome of reliability test run on data collection instruments of HCI. Reliability is used to which an assessment tool produce stable and consistent result as Validity test is use to evidence that theory support the interpretations of test and it also determine that what types of tests to use.

Table 11: Construct Reliability and Validity

	Cronbach's Alpha	Average Variance Extracted (AVE)
CFW	1.000	0.997
CI	1.000	0.998
PR	1.000	0.984
RRE	1.000	0.998
ST	0.999	0.996
TRA	1.000	0.998

Table 1 is divided into two columns the right side column describes total numbers of item use in data collection instruments and the left side column shows the value of

Cronbach's Alpha .The value of Cronbach's alpha of different items are 0.997, 0.998, 0.984, 0.998, 0.996, 0.998 the cronbach alpha is basically statistical measure of how items are scale consistent with the construct of the variables.

CHAPTER 5

DISCUSSION AND CONCLUSION

Decline in the performance is a visible gap in organizations of Pakistan due to lack of understandings of HRM practices. Both HRM practices and employees performance is a black box (Boseli, Dietz and Boon, 2005) area yet to investigate. Watson worked on developed country in 1990, while our work on underdeveloped country for example Pakistan, therefore there is a big difference between develop and underdeveloped HR practices. There is no legislation and establishment of HR practices in Pakistan. In private organizations of Pakistan data is more important than HR practices. The main reasons of these differences is the lack of understanding and implementation of HR practices in underdeveloped country therefore differences between lack of market knowledge and financial shareholder returns proves the lack of understanding. The biggest reasons of poor HR practices in Pakistan are environmental change, supportive creative thinking, productivity, and technological change. If we focus on our infrastructure and Advertisement than we can increase our shareholder value creations so, if we hired the most relevant people and creates the balanced working environment that support creative thinking and increase productivity than we will gain the reward.

As a result of these outcomes the business case has been building and Watson Wyatt's HCI research marks it airtight. The linkages between the superior's human capital management and superior's shareholder returns has been proven. Furthermore, proof that superior HR practices drove the financial results more than superior financial results drive HR practices supports our theory: If you hired the right people that will create an environment that supports creative thinking and automatically increased

productivity, leveraged by technology, you'll gain the rewards. There's no question that it pays to manage people right. Organizations always have long focused resources on the other aspects of companies, together with infrastructure, R&D, sales and advertising, just to name a few of them. These can increased shareholder value creation in different measurable ways. Some of them but certainly not the all tried to use their human capital to increase returns to the shareholders. But uniformly these companies are taking a shot in the dark, because no one could count which human capital programs were linked to good outcomes. Organizations have long focused resources on other aspects of their companies, including infrastructure, R&D, sales and advertising, just to name a few. These things can increase shareholder value creation in measurable ways. Some but certainly not all tried to use their human capital to increase returns to shareholders. But even these companies were taking a shot in the dark, because no one could quantify which human capital programs were linked to good outcomes. The business case has been building and Watson Wyatt's Human Capital Index research makes it airtight. The linkage between superior human capital management and superior shareholder returns has been proven. Likewise, proof that the superior HR practices drive financial results more than superior financial results drive HR practices supports our theory: If you hired the right people, create an environment that supports creative thinking and increased productivity, leveraged by technology, you'll gain the rewards.

5.1. Policy Implications

The study sought to determine the human capital practices adopted by Pakistan stock Exchange it was noticed that most of the human capital management practices were in recruitment excellence, rewards and accountability. Communication integrity was the least practice used. It can therefore be established that maximum stock market human

capital management to an average degree. The study also sought to establish the relationship between human capital management practices and firm performance. The results indicated apart from for communication integrity, other human capital management practices took a negative influence on turnover growth and value creation. Further, careful use of resources have a negative influence on substantial performance of the stock market during current fiscal year can be attributed to the number of positive factors including a stable macroeconomic environment, relative stable exchange rate, acceleration in the privatization process, downward inflationary trend, prudent monetary policies and strengthened economic growth. It can be concluded that human capital management practices generally have a positive influence on performance as measured by turnover growth and return on assets.

5.2. Recommendations

The results of the study are interesting in a number of ways but especially due to facts that the association between human capital management practices had no significant influence on performance. As such, the study makes the following Recommendations:

- 1) There is need for stock exchange to take more measures by enhancing the human capital management practices as the scores are still low. This may helped in improving the impact that human capital management carry out has on performance.
- 2) Communication is a major problem. There is need for management to undertake serious measures that will help improve the communication between top management and other cadre employees. The communication distance between top management and other employees need to be reduced by employing

more communication techniques. This may be done through rigorous training and workshop for managers and employees.

5.3. Suggestions for further Research

The study suggests that there is a need to replicate this study to other industries in Pakistan to ascertain whether the same results can hold. This will help in enhancing the knowledge on human capital HR practices in Pakistan.

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