

## **The impact of Skilled Human Capital on new Job Creation in India**

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### **Abstract**

**Purpose** – The purpose of this paper is to probe and aid readers' in understanding of the areas of skilled human capital needed to reduce the gaps of employment opportunities in India.

**Design/methodology/approach** –In order to understand the reasons behind the increasing skill gap despite a vibrant and abundance of young population in India, a thorough review of available literature was done

**Findings** – This paper analyzes Skilled Human Capital across three relevant themes namely Contemporary vs traditional skills, the dramatic change in skilling actioned by the changing demographics of India and The unique needs of India given the culture, business structures and major contributors to the country's GDP such as services.

**Research limitations/implications** – Being conceptual in nature, these practices must be tested empirically by introducing a model by relevant stakeholders in the organization in the area of skilled human capital to add further weightage to literature.

**Practical implications** – This paper arrives at the conclusion that Skilling of Human Capital is a means to an end and a continuous journey and the nature of the required skills may be very specific to the industry and nature of the business.

**Originality/value** – Based on literature review, the paper makes specific recommendations to various stakeholders (industry, academia, and government) in bridging the skill gap and would serve as a roadmap for companies guiding them to follow certain strategies to improve skills of future workers by investing in them and growing their own talent pool; and is an attempt to highlight the fact that India's jobless growth is not going to reap the demographic dividend and certainly the increasing skill gap needs to be bridged using various ways of

**Keywords** – skills, human capital, human resources, India

## **Introduction**

The key weaknesses to the growth in the country like India are the insufficient supply of quality skilled manpower in many companies. The economy of India has risen nearly more than 8% on usual over the past five years, together with the time of unparalleled fiscal crunch in the year 2009. Though, the scarcity in the skills of manpower is still the key limitations in most businesses in India (World Bank, 2009b).

Engineers play a very critical role in the infrastructure, Information Technology and power sectors predominantly in problematic conditions of the not fulfilling demand for skills. In lieu of the same an illustration is the disseminating Information Technology sector stated the deficiency of skills as the grave hindrance for development, and earnings from 2003 to 2006 rose 15% annually primarily due to the deficiencies of competent staff (World Bank, 2009). The most revenue generated sector that is the service sector also faced severe deficiencies of competent manpower. This segment needs to rise its hiring by at least 2-3 times of the 2008 equal where 6,000 – 7,000 new engineers and diploma holders joined the service sector workforce (World Bank, 2008). Also in the power sector, the emphasis is also on scarcities of skilled engineers. The sector requires additional knowledge and skills at all levels of the workforce, predominantly in view of the mounting fears over ecological degradation and exhaustion of conventional sources of energy (Ministry of Power, 2007). Conferring to the extensively cited report by NASSCOM i.e. National Association of Software and Services Companies and Consultancy named McKinsey in the year 2005, found out that only 25% of the engineering education graduates are employable by MNCs. Numerous companies bounce tangible instances on the deficiency of expertise of the afresh graduated engineers, which the companies tie to inadequacies in the schooling system in India.

The higher education system has answered this deficiency of skilled manpower to the augmented demand for engineers by enormously increasing the number of engineers. The amount of scholars joined amplified from nearly 800 percent from the year 1998 to the year 2008, (MHRD, 2009). This quantifiable development is extensively professed to have absorbed an average fading of the students entering the colleges, the education and, accordingly, the excellence of the progressing engineers (Jha et al. 2009).

Regardless of the importance of the state, diminutive exploration has been directed to recognize the types of services required by companies and amount in which skilled students meet company's 'expectation. There is a combined demand for such information from administrators, educators, and the makers of the policy. For instance, Indian Government is executing a drive with World Bank to co-finance and to look at the progress and the worth of engineering education and intensify the learning outcomes of engineering teaching graduates.

For this program and for other initiatives, it is precarious to categorize specific blockages in skills needed by employers, and deliver comprehensive evidence as well as hands-on submissions to overcome the talent inaccuracy.

The rising necessity for Skilled Human Capital is progressively and vividly increasing as the years go by. This paper presents a theoretical and nuanced view incorporating a meta-analysis as well as a bibliographic study of prior research on the subject.

### **Literature Review**

In the rural areas, poverty still persists in spite of the rapid economic growth in the past few decades India has undergone. There are three prime ways to boost the standard of living of rural populations and they are: boost agriculture, enhancing earnings from rural non-agricultural activities, and shifting to find jobs in the cities. Uncontrollable population increase in our country like India has created shortages of land, additionally incardinating advancement in the Indian sector of farming and agriculture and making the agriculturalists a stable impetus to find out newer work prospects apart from farming. Unlike in most other Asian nations, in India, it is the most revenue generating sector i.e. service sector apart from the industrial sector which runs the major development of our country.

The World Economic Forum's Human Capital Report, annually released since 2013 brought to light the fact that human capital cannot be ignored as a pertinent matter for serious discussion and thought. India was ranked 100<sup>th</sup> in terms of Human Capital Index, with the best performance and a rank of 67 for the age group of 15 to 24 years. (Mercer, 2015). This brings to light the term "democratic dividend" used colloquially for describing India's young population's strength in diversity and numbers. This scenario makes India not only lucrative to foreign investors as a large market to conquer, but also makes India a hub of diverse and thriving human capital.

The report goes on to describe how India is disadvantaged in spite of such a huge democratic dividend because of the poor literacy rates among youth, making India rank 98<sup>th</sup> in the world in the aspect. To add to this woe, the participation from the labor force in India is highly biased in numbers toward the unorganized and informal sector. However, efforts are being concentrated in the direction of skilling, training and of course, educating the youth in India. The recent Skill India initiative is a commendable example of the same, as are the efforts of the National Skill Development Corporation (NSDC).

Categorically, with an increasing section of the most prominent sector in India that is the service sector such as financial services and IT-related services goals which comprises of highly trained workforce as well as few low-slung-return outdated sectors of service. In 2014 the Indian government introduced an initiative to simplify mechanization through the deregulation of the

investment in industrial sectors, comprising supplementing the development of so-called industrial passages, liberalization of foreign direct investment (FDI) and creation of special economic zones (SEZ), all of which are responsible to add to the job creation which was named, Make in India.

A complex social stratification system of the Indian society has discriminated people in numerous means, predominantly by caste, gender, religion, class, and region. Explicitly, status regulates admittance to power, wealth and privilege; as it is inherited in this endogenic structure, which have steered economic as well as social disparity among social cluster. India can be broadly shelved as a lower-middle income economy, to which several of its idiosyncrasies can be attributed, including the state of its learning & employment indices (Mercer, 2015). Moreover, the dominant religion in India is Hinduism and this religion is observed to by nearly eighty per cent of the population in India; 14% account for Muslims; minor amount of Christians and the community of Sikhs are the residue (Stat India, 2016). In 1947 a reservation system was introduced by the Constitution of India which intended towards align openings across Tribes and various castes by starting 2 types of clusters to be given with earmarked spaces in administration occupations, party-political symbol, and scholastic places like educational institutions. The Scheduled Caste cluster comprised of the bottommost of the hierarchy of the caste, whereas Scheduled Tribe cohort was consists of economically and socially relegated communities. Far ahead, an additional cluster was extended to comprise of Other Backward Classes (OBCs), which contained of 2339 underprivileged clusters.

The Government of India offered its population especially the rural poor with many work openings through the NREGA which is known as Mahatma Gandhi National Rural Employment Guarantee Act, a bucolic workforce programme executed in the year 2005 which offers a minimum daily wage of Rs. 60 to a worker which is equal to 100 days of manual work for the unskilled rural workers. Jobs were given in 2012/2013 for 50 million rural households; and the total service under this programme SCs and STs made up to nearly 50%, (Government of India, 2012). States like Uttar Pradesh, Bihar, Odisha, and West Bengal are the states that many studies suggest the rise of employment through NREGA. In these states, opportunities for employment were given for nearly 20 million rural workers, which is equal to one fourth of the total service in these places. Furthermore, the most joint effort taken up in these states was connected to the water conservation, water harvesting, rural connectivity, flood control and protection, and (India stat, 2016). These radical determinations to align the social as well as economic inequalities among the caste clusters have been believed ineffective in refining the position of the underprivileged castes, as monetary dissimilarity among the castes continues (Borooah, 2005 et al). Kijima (2006) emphasized that the alterations in existing principles between the scheduled castes can be explicated in part by geographical variances, as STs are for the most part concentrated in remote areas. Meanwhile, the modifications between scheduled castes are mostly manifested by

disparities in schooling and work-related preferences. Particularly, in the cities, the connotation of caste with occupation is not as strong as it was in the past (Cain, Hasan, et al, 2006), therefore it is significant to examine the family's current work-related variation tactics in the villages, with distinctive consideration to the underprivileged classes.

A policy brief explores inequities that have arisen between rural and urban India, shining light on how there is an ever-increasing gap in daily wages between urban and rural India while inflation and other macroeconomic factors remain all-pervading. A large part of this may be attributed to the fact that rural employment still primarily remains agrarian, where most of the employment is informal / unorganized (ADB, 2006). Hence, we cannot deny the need for revisiting human capital and developing a skilled workforce to face the future. In this very direction, efforts have been concentrated toward making employment increasingly formalized and encouraging the trends of automation and processing (for instance, food or agricultural produce) while manufacturing.

The business has become more dynamic, competitive and tough. This can be handled only by competent, efficient and skilled human resource. In this global and knowledge, information and comprehension-based economy, wealth or financial system, the firms will gain their competitive advantage through the consolidation of the new information and communication technologies (ICTs) to their production and services organization together with the human resource (HR) systems, with the stress on developing and nurturing a strategy-based human resource development system (Bhattacharya & Sharma 2007). Job creation has become an imperative as well, and the cause is well under way with entrepreneurial initiatives being encouraged and financially supported in the country. At times like these, the creation of jobs and the quality of these jobs is highly dependent on the leadership in the country, be it political or otherwise. Just as it is with the support from the management for developmental initiatives in any organization, visionary leadership can aid in bridging the employment gap in India effectively (Dencker et al, 2009). In a quickly changing world economy, wealth or financial system, the thrust for the advancement of a nation is conception through technological evolution and this is engrafted in knowledge, information and comprehension acquisition, knowledge, information and comprehension breakthrough and knowledge, information and comprehension conception. (Tripathi M 2006).

The prosperity of any nation is dependent on its human capital. The economic development of any nation is intrinsically linked to the quality of its human capital and their intellectual abilities. Usually, the companies visiting colleges for campus recruitments' cite that the students do not possess necessary skills matching the needs of the job market making them unemployable in various sectors of the industry. Studies reveal that there is a dearth of students with good technical and soft skills required for the ever changing environment. The world has become a global village due to reduced international barriers to trade and investments leading to a more integrated

economy. As a result employers today operate in turbulent environment that demands new and constantly developing skills in order to retain global competitiveness.

### **Objectives of the Study**

The objective of the study is to understand the factors leading to skilled human capital scarcity in India and to recommend some measures to the existing companies to enhance skilled human capital.

### **Methodology**

To continue with our work on skill development in organizations today and an endeavor to bring some clarity and explore the trends by the organizations on the area of skill shortage, this paper is based on a systematic review of literature which seeks to synthesize the current thinking and evidence. Emphasis is drawn on specifically on reviewing at the Indian practices of current employers to reduce the skills gap in the organization. Literature for this study was predominantly sourced from internet searches and use of management journal databases such as EBSCO, EMERALD, Elsevier and SCOPUS.

### **Findings**

The findings of the paper implicitly point out that a vast skill gap is prevailing in the Indian labour market and there is a dearth of human intellectual capital in India. Also it emphasizes on the role of various stakeholders in bridging the skill gap by investing in workforce of today for a better tomorrow.

It is a given that Skilled Human Capital is a 'Need of the hour'. To obtain sharper outcomes we have tried to analyze the subject the following themes.

#### 1. Contemporary vs Traditional Skills

Perhaps one of the greatest needs in the current day and age (contemporary skill) is the need to be tech-savvy as technology has invaded each and every facet of work. Being tech savvy is not just knowing how to use 'Whats-app' but knowing at a far deeper level how the use of technology can 'glue and grease' the wheels of business.

E.g. Can we implement the 'Self-Service' function across all facets of HCM in the company so as to offset a significant administrative burden from the HR department. Thus the skill leads to direct savings.

## 2. Skilling Change required due to demographic changes in India

India's demographic structure has changed dramatically over the years as hordes of millennials (people born after 1990) qualify and enter the work force. Millennials of Gen Z as they are popularly called think very differently from older Gen X and Gen Y employees who are retiring and the Human Capital Skills required to handle them are very different.

Industry needs to focus on skills that will provide tangible results in handling this generation better. E.g. The Talent acquisition team of Unilever in India is piloting the use of 'Gamification' to

A. engage with millennials better and

B. Reduce the overall recruitment cycle drastically leading to tangible savings (link to the conceptual model below)

3. Incredible India - Unique Indian needs due to culture, business & economic structures, India is a country of diverse cultures and business and economic structures. The Power Distance Index for India as measured by Hofstede's dimension is 77. This skill of 'Cultural Awareness and Sensitization' is critical for business and human capital practitioners to effectively manage their work force.

## 4. Business and Economic Structure

Services is expected to contribute almost 60 % of India's GDP by 2020. The services sector requires a high skilling need for 'Process Orientation' and people with such skills are in high demand and command significantly higher billing rates. Eg the skill of Agile Scrum Methodology to deliver software releases faster and better.

## 5. Job Creation for India

Can the tail wag the dog? The discussion here is that "Can a specific skill or group of skills CREATE jobs in India in consonance with the 'Make in India' initiative of the government? The answer is an enthusiastic and a qualified yes.

Certain Skills in Human Capital are unique, valuable, rare and ROI friendly and hence the presence of these skills in people can lead to the creation of a significant number of jobs 'downstream' as the skilled people (design and business process or Subject matter experts) can train new entrants for execution and delivery.

## **Discussion and Recommendations**

These are the ways in which this study suggests the ways and means to reduce the skills gap.

1. HR Analytics – Skill in HR best practice

HR Analytics is the science of measuring people behaviors to achieve business objectives. EG if we can reduce ‘Cost per Hire; overall cost of talent acquisition falls, Hence people who have/can develop HR Analytics skills would be able to train/drive the execution and hence help to create ‘downstream’ jobs

2. Artificial Intelligence/Internet of Things(IOT)

Skills in AI/IOT are in great demand in the IT sector which is otherwise logging job losses in roles of people with legacy skills.

E.g, Employees with deep skills in Dev-Ops can ‘encourage’ new client orders and thereby create jobs for new employees.

3. Business Process Re-engineering (BPR)

The Manufacturing and Services Sector in India contains a huge legacy of processes which are ripe to be made more efficient by the use of BPR type techniques. Skilled Human Capital can then ‘create’ more jobs for the execution of such improvements by imparting training and mentoring to the new entrants.

Eg the Automotive Industry could hugely benefit from the usage of ‘Lean Six Sigma’ in the entire cycle from Design to Rollout as well as After-Sales Services.

Additionally, all the three above analytical themes can be further analyzed from the economic impact on the organization

1. Efficiency: How fast can we do our work because of specific skills?
2. Effectiveness: How well are we able to do our jobs due to specific skills?
3. Impact: What is the business impact of the skill in terms of topline and bottom line?

Demographic Dividend – a double edged sword

India is currently said to be reaping the benefits of the ‘Demographic Dividend’ – an outcome of the two child govt. policy followed in the last century by which the number of people entering the working population ‘workers’ is higher than the number of people leaving the working population



‘retirees’.

However the number of jobs created is much lesser than the number of people available post – education. The point here is that does this new population have the right skills required by industry or not in order to match the business requirements.

Loss of female employees and Retirees from the ranks of Skilled Human Capital

We are losing a lot of Skilled Human Capital due to the exit of trained and good performing females and retirees and the Indian economy gets negatively impacted because of this.

### **Managerial Implications**

It is evident that an increased level of HR skilling will typically lead to a better understanding of the employees of the organization (inside-out viewpoint) and how they can add value to the company. A case in point is the iWork Home program rolled out by ICICI Bank based on the skills understanding of lady employees (who may have otherwise left the workforce). Additionally the increasing role of HR as a Business Partner means that they need to understand the dynamics of the business world (outside-in viewpoint) which can lead to increased business thus leading to Job Creation. Such understanding would require HR to upgrade their skills.

Business Leadership expects current day HR professionals to have both broader and deeper skills and act as a single point of contact (SPOC) for the business unit. HR contribution to the company is positively correlated with improved skilling which in turn improves HR service deliveries to the organization.

Higher skilling in HR professionals leads to better performance in the economic indices measurements across the world.

### **Conclusion**

To conclude it is important to look at all the above measures in order to resort to the most vital need of the day that is skilled human capital. With initiatives like digital India and automation the skill based employees will grow and have better employment opportunities if they are oriented towards right training and skill development.

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