

Analysis of the Organizational Attitude Towards Human Capital Development: A Study on Commercial Banks in Bangladesh

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Abstract

Purpose – The objective of this research report is to depict the attitude of commercial banks in Bangladesh towards its human capital development.

Methodology – This exploratory research is conducted in total of 8 private commercial banks in Bangladesh from which 25 HR managers have been selected as respondents through convenient sampling method. Both the primary and secondary data were used in the study. A structured close ended questionnaire with five point Likert type scale was used for collecting primary data.

Findings – The study found that the commercial Banks in Bangladesh have positive attitude towards the human capital investment. Although some organizations are found to consider such investment as risky, yet they are investment oriented to its people because they believe that investment in people is the main source of having sustainable competitive advantage. The findings also suggest that the banks can reduce the risk of investment in people by developing strong employee retention policies as creating long term contracts, offering financial incentives and additional professional opportunities. The study suggests the banks that are more investment oriented on human capital development; they should conduct proper cost-benefit analysis.

Implications – The findings of this study will help the banks of Bangladesh to be aware about the importance of investment on human capital development and also see the picture to outcome from the investment on human capital development.

Keywords: Commercial banks, Human capital development, Organizational attitude, Investment.

DOI: 10.7176/JESD/10-2-02

1. Introduction

Human capital is getting wider attention with increasing globalization and also the saturation of the job market due to the recent downturn in the various economies of the world. Developed and developing countries put emphases on a more human capital development towards accelerating the economic growth by devoting necessary time and efforts. Thus human capital development is one of the fundamental solutions to enter the international arena. Specifically, firms must invest necessary resources in developing human capital which tend to have a great impact on performance.

To develop a competitive advantage in current global market, it is important that firms truly leverage on the workforce as a competitive weapon. A strategy for improving workforce productivity to drive higher value for the firms has become an important focus. Firms seek to optimize their workforce through comprehensive human capital development programs not only to achieve business goals but most important is for a long term survival and sustainability. To accomplish this undertaking, firms will need to invest resources to ensure that employees have the knowledge, skills, and competencies they need to work effectively.

2. Literature review on human capital

What is human capital? According Schultz (1993), the term “human capital” has been defined as key element in improving a firm assets and employees in order to increase productive as well as sustain competitive advantage. To sustain competitiveness in the organization, human capital becomes an instrument used to increase productivity. Human capitals refer to processes that relate to training, education and other professional initiatives in order to increase the levels of knowledge, skills, abilities, values, and social assets of an employee which will lead to the employee’s satisfaction and performance, and eventually on a firm performance. Restage (2000) stated that human capital is an important input for organizations especially for employees’ continuous improvement mainly on knowledge, skills, and abilities. Thus, the definition of human capital is referred to as “the knowledge, skills, competencies, and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being” (Organization for Economic Co-Operation and Development or

OECD, 2001: 18).

The constantly changing business environment requires firms to strive for superior competitive advantages via dynamic business plans which incorporate creativity and innovativeness. This is essentially important for their long term sustainability. Undoubtedly, human resource input plays a significant role in enhancing firms' competitiveness (Barney, 1995). Becker (1993) noted the most valuable of all capital is that investment in human being. Human capital has a direct impact on the intellectual capital assets that will yield higher financial results per employee. Therefore, development human capital has a direct impact on ROI of firms. . A causal model using a set of cross-sectional data developed by Selvarajan et al. (2007) indicates that human capital enhancement paves a way for greater innovativeness and this in turn offers positive implications on firm performance. Some even endorsed that human capital development is a prerequisite to good financial performance (Delaney & Huselid, 1996) and in addition, the importance of organizational human capital with regard to firm performance was further supported by Hsu et al. (2007). Doucouliagos (1997) has noted human capital as a source not only to motivate workers and boost up their commitment but also to create expenditure in R&D and eventually pave a way for the generation of new knowledge for the economy and society in general. Also, for small businesses it is available asset, which is positively associated with business performance. From the organizational level, human capital plays an important role in the strategic planning on how to create competitive advantages. Following the work of Snell et al., (1999) it stated that a firm's human capital has two dimensions which are value and uniqueness. Firm indicates that resources are valuable when they allow improving effectiveness, capitalizing on opportunities and neutralizing threats. In the context of effective management, value focuses on increasing profits in comparison with the associated costs. In this sense, firm's human capital can add value if it contributes to lower costs, provide increased performances.

Above research works as well as many other substantial studies were carried out on human capital and their implications on firm performance and obviously, human capital enhancement will result in greater competitiveness and performance. But these research works do not represent much on what type of attitude organizations belong towards human capital development. Since Human capital is very important asset used to achieve firm's competitiveness and its development largely depends on organizational attitude (investment orientation of firms), so our research motive is to assess how investment oriented our commercial banks are towards human capital development?

3. An overview of banking industry in Bangladesh

After the independence, banking industry in Bangladesh started its journey with 6 nationalized commercialized banks, 2 state owned specialized banks and 3 foreign Banks. In the 1980's banking industry achieved significant expansion with the entrance of private banks. Now, banks in Bangladesh are primarily of two types:

3.1 Scheduled Banks

The banks which get license to operate under Bank Company Act, 1991 (Amended up to 2013) are termed as Scheduled Banks. There are 57 scheduled banks in Bangladesh who operate under full control and supervision of Bangladesh Bank which is empowered to do so through Bangladesh Bank Order, 1972 and Bank Company Act, 1991. Scheduled Banks are classified into following types:

- *State Owned Commercial Banks (SOCBs)*: There are 6 SOCBs which are fully or majorly owned by the Government of Bangladesh.
- *Specialized Banks (SDBs)*: 2 specialized banks are now operating which were established for specific objectives like agricultural or industrial development. These banks are also fully or majorly owned by the Government of Bangladesh.
- *Private Commercial Banks (PCBs)*: There are 40 private commercial banks which are majorly owned by the private entities. PCBs can be categorized into two groups:
- *Conventional PCBs*: 32 conventional PCBs are now operating in the industry. They perform the banking functions in conventional fashion i.e interest based operations.
- *Islami Shariah based PCBs*: There are 8 Islami Shariah based PCBs in Bangladesh and they execute banking activities according to Islami Shariah based principles i.e. Profit-Loss Sharing (PLS) mode.
- *Foreign Commercial Banks (FCBs)*: 9 FCBs are operating in Bangladesh as the branches of the banks which are incorporated in abroad.

3.2 Non-Scheduled Banks

The banks which are established for special and definite objective and operate under the acts that are enacted for meeting up those objectives, are termed as Non-Scheduled Banks. These banks cannot perform all functions of scheduled banks. There are now 6 non-scheduled banks in Bangladesh.

4. Objectives of the study

The objective of this research report is to depict the attitude of commercial banks in Bangladesh towards its human capital development. That means to identify how investment oriented our commercial banks are towards human capital development?

5. Methodology

This exploratory research is conducted in total of 8 private commercial banks in Bangladesh from which 25 HR managers have been selected as respondents through convenient sampling method. This research study is based on both primary and secondary information. The theoretical part of this study is formalized from secondary information collected from different books, journals, publications of thesis, and different financial statements of private commercial banks Ltd. in Bangladesh. Moreover, a structured questionnaire has been used for collecting primary data. This questionnaire was prepared by using a five point Likert type scale where 1= strongly disagree, 2=disagree, 3= neither agree nor disagree, 4=agree, 5=strongly agree. The researchers also conducted personal interviews to collect relevant information. The data used in this research is both qualitative and quantitative in nature. The researchers have used five factors or variables in the questionnaire to explore organizational attitude (investment orientation of firms) towards human capital development. These factors are- Management Values, Attitude toward risk and return, Nature of employee Skills, Utilitarian mentality and preference to Outsourcing. Finally, researchers used Statistical Package for Social Science (SPSS), Microsoft Excel and scientific calculator to analyze and interpret the data.

6. Analysis and findings

6.1 Analysis of Management Values to its People

Organizational investment in assets depends on management values and actions. The extent to which organizations can be characterized as investment oriented to its human capital development may be revealed through answering the question-‘How management values to its people relative to other assets in order to achieving organizational goals?’ Following Table-1 demonstrates that about 80% managers in the commercial banks in Bangladesh strongly agree that people are the most valuable assets among others in achieving organizational goals. Rests of the managers are also agreeing with this statement. So, we can say from the following Table-1 that commercial banks in Bangladesh have affirmative attitude towards investment in human capital development.

Table-1: Management Values to its people

Particulars	Frequency	Percent	Valid Percent	Cumulative Percent
Agree	5	20.0	20.0	20.0
strongly agree	20	80.0	80.0	100.0
Total	25	100.0	100.0	

In support of our statement, the following Table-2 shows the scenario of commitment of funds in human capital development by different Private Commercial Banks in Bangladesh for the period of the year 2014 to 2016. Hence, we can also say that proportion of funds invested in Human capital development by majority Private Commercial Banks in Bangladesh increased significantly. Note that these investments for human resource development cover major portion (about 60%) of the operating expenses which is an indicator of organizational positive attitude towards investment in its human capital development.

Table-2: Scenario of investment in Human Capital Development:

Name of the Banks	Human Capital Investment		
	2014	2015	2016
BRAC Bank Ltd.	405,63,56,031	463,80,70,483	421,24,50,692
Jamuna Bank Ltd.	295,79,76,826	224,36,27,373	267,31,90,696
Southeast Bank Ltd.	141,92,58,208	148,09,75,954	194,16,68,434
One Bank Ltd.	183,34,00,006	197,48,49,197	227,54,49,383
Shahjalal Islami Bank Ltd.	178,64,87,554	183,19,95,913	196,87,14,169
Standard Bank Ltd.	152,50,58,026	165,50,01,478	172,85,99,496
IFIC Bank Ltd.	255,81,56,237	233,20,69,298	246,83,58,909
Mercantile Bank Ltd.	184,97,57,085	189,47,62,865	378,65,53,246

Source: Financial Statement.

6.2 Analysis of Organizational Attitude towards Risk and Return

As human assets cannot be owned by the organization unlike other physical assets, most of the firms view investment in human capital risky. That’s why the researchers want to measure the extent to which organizations are investment oriented to its human capital development in spite of having high risk. The following Table-3

represents that about 40% managers of the commercial Banks in Bangladesh agree that in spite of having high risk organizations should invest in Human Capital development. Although 32% of the managers are neutral in this regard, 28% of the managers strongly agree that investment in employee development is essential to generate high return. So, it can be said from the following Table-3 that in spite of having high risk, commercial banks in Bangladesh are highly interested to invest in people due to possibility of high returns.

Table 3: Attitude toward risk and return of human capital investment:

Particulars	Frequency	Percent	Valid Percent	Cumulative Percent
Neither agree nor disagree	8	32.0	32.0	32.0
Agree	10	40.0	40.0	72.0
strongly agree	7	28.0	28.0	100.0
Total	25	100.0	100.0	

6.3 Analysis of the Attitude towards Employee's Skills Needed to Perform Banking Jobs

When the organizations require employees to develop and utilize very specialized skills that are not applicable to other organizations, investment in employee's development programs is safe. On the other hand when the organization requires employees to develop and utilize skills that are highly marketable, investment in employees becomes more risky. So our research motive is to know whether the employee's skills needed for banking jobs are unique or marketable. This information is very important to understand how investment oriented the Commercial Banks are towards employee's skills development which may be unique or marketable? The following Table-4 shows that about 72% of the managers believe that skills required to perform banking jobs are unique. So we can conclude that organizations are investment oriented to develop specialized skills that are not applicable to another organization for performing their Banking jobs. Though 28% of the managers believe that skills needed for performing banking jobs are marketable in nature, organizations should invest in employees skill development and introduce strong employee retention programs.

Table-4: Attitude towards employee Skills development

Particulars	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	2	8.0	8.0	8.0
Disagree	5	20.0	20.0	28.0
Agree	14	56.0	56.0	84.0
strongly agree	4	16.0	16.0	100.0
Total	25	100.0	100.0	

6.4 Analysis of "Utilitarian" Mentality of Organizations towards Human Capital Investment

An organization that evaluates investments by using utility analysis, also known as cost-benefit analysis, has utilitarian mentality. The more utilitarian an organization, the more likely it is investment oriented to its people and vice-versa. So we want to measure the extent to which Commercial Banks in Bangladesh are evaluating their human capital investment by using utility analysis. The following Table-5 shows that about 72% of the managers agree that their organizations have utilitarian mentality towards Human Capital investments. Although 28% of the managers are neutral in this case, it can be concluded from the Table-5 that Commercial Banks are investment oriented toward Human capital.

Table-5: Utilitarian mentality of organizations

Particulars	Frequency	Percent	Valid Percent	Cumulative Percent
neither agree nor disagree	7	28.0	28.0	28.0
Agree	4	16.0	16.0	44.0
strongly agree	14	56.0	56.0	100.0
Total	25	100.0	100.0	

6.5 Analysis of Availability of Cost-effective Outsourcing

When an organization can perform certain functions more efficiently by outside people, it is not investment oriented to its people and vice-versa. Investment in internal people development to perform certain activities becomes challenging when cost-effective outsourcing is available. So our intention is to asses "To what extent Commercial Banks in Bangladesh are preferring outsourcing for performing their banking functions to internal people?" The following Table-6 shows that about 40% of the managers believe that organizations are performing its functions by outsiders. In such case they are less investment oriented towards its people development to

perform such functions. On the other hand about 52% of the managers disagree with the statement. It indicates that they prefer internal people to outsourcing in performing jobs. Note that researchers have understood through interview that Banks are investment oriented to its people in performing its administrative jobs efficiently whereas they prefer outsourcing to perform its some strategic functions because of cost-effectiveness.

Table-6: Preference to Outsourcing

Particulars	Frequency	Percent	Valid Percent	Cumulative Percent
Agree	10	40.0	40.0	40.0
Disagree	13	52.0	52.0	92.0
neither agree nor disagree	2	8.0	8.0	100.0
Total	25	100.0	100.0	

7. Recommendations and Conclusions:

The study reveals the attitude of Commercial Banks in Bangladesh towards Human capital development by analyzing the factors that affect how “investment oriented” they are in management of their human capital. The study found that commercial Banks in Bangladesh have positive attitude towards their investment in people. Although some organizations evaluate such investment as risky, yet they are investment oriented to its people because they believe that investment in people is the main source of sustainable competitive advantage for the organizations. Here commercial banks can reduce the risk of investing in people by initialing strong employee retention policy like creating long term contracts, offering employees financial incentives and additional professional opportunities. Finally, to be more investment oriented to people development Commercial Banks should conduct proper cost-benefit analysis of human capital investment.

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