Journal of Resources Development and Management
ISSN 2422-8397 An International Peer-reviewed Journal
Vol.14, 2015

Influence of Human Capital Management on Organizational Performance

Ajisafe, Olatunbosun Emmanuel Orifa, Ruth Aina Oluwayemisi Balogun Justinah Abosede
Department of Business Education, Adeyemi College of Education, P.m.b. 520, Ondo, Ondo State, Nigeria

Abstract
This paper explains the influence of human capital management on organizational performance with a focus on the banking industry. Two research questions were raised to guide the study. A descriptive research design of correlation type was adopted. Data was collected from 62 senior permanent employees across the 5 banks out of 12 commercial banks available in the target study area to form the sample. Mean statistic and Pearson product moment correlation were used to analyze the data collected from the study. Results from the analysis showed that human capital management has a significant and positive influence on organizational performance. It is recommended among other things that training and development programmes should be prioritized in the banking industries and workers should be made to develop their careers by ensuring their job security and not just being used for the organizational growth; but later abandoned being useless and unproductive.
Keywords: Human Capital, Management, Organization, Performance, Efficiency

1. Introduction

It is possible as a manager to do things right – lay brilliant plans, draw clear organization charts, set up world-class assembly lines and use sophisticated accounting controls, but still fail by hiring the wrong people or by not motivating subordinates. On the other hand, many managers have been successful even with inadequate plans, organizations, or control. They were successful because they had the opportunity of hiring the right people for the right jobs and motivating, appraising and developing them. It was formally believed that capital is the major obstacle to developing industries before now. However, this is no longer true as it is now the inability of the company to employ the required work force and maintain them that now constitutes an impediment for organizational efficiency and performance. There is no project supported with good ideas, vigor and enthusiasm that has been stopped by capital inadequacy; but there are organizations which growth had been retarded because of inability to hire and maintain very efficient and enthusiastic work force. This, falls under the purview of human capital management.

The concept of human capital has recently received attention from many researchers. They hypothesized that it represents the human factor in the organization, the combined intelligence, skills and expertise that gives the organization its distinctive character. Human capital is the knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being. The aspects of human capital that are of most relevance to the organization's workforce and productivity are: formal learning (learning leading to a qualification); non-certified learning (on-the-job training, work experience, or other learning not leading to a formal qualification); foundation skills; management skills and leadership skills. Employees' knowledge and skills are known as human capital. It is the core of intellectual capital that drives business performance. Choudhury and Nayak (2011) affirmed that people are the greatest asset, providing the intellectual capital that drives differentiation and value added. Westphalen (2009) opined that human capital can be defined strictly within an economic context as a production factor and Koednok (2011) described it as an economic term used to describe the skills and knowledge that individuals draw upon to generate outputs of value, such as innovation and productivity in job performance. Moreover, Rephann, Knapp & Shobe (2009) defined it as the stock of knowledge and skills embodied in labor as a result of training and education that improves labor productivity. While, Papadimitriou (2011) affirmed it is investing in the skills and knowledge that faculty and staff need in order to be outstanding teachers, scholars, innovators and leaders. It is the stock of knowledge, habits, social and personality attributes, including creativity, embodied in the ability to perform labour so as to produce economic value. Alternatively, human capital is a collection of resources—all the knowledge, talents, skills, abilities, experience, intelligence, training, judgment and wisdom possessed individually and collectively by individuals in a population. These resources are the total capacity of the people that represents a form of wealth which can be directed to accomplish the goals of the nation or state or a portion thereof. It is an aggregate economic view of the human being acting within economies, which is an attempt to capture the social, biological, cultural and psychological complexity as they interact in explicit and/or economic transactions.

Moreover, Enyekit, Amaehule & Teerah (2012) described it as the intangible factor of production that brings human intellect, skills and competencies in the production and provision of goods and services. Human capital therefore represents individual's knowledge and skills; it is not owned by the organizations, but it can be rented; it is in the minds of individuals (individual property) and finally, it goes with individual when he leaves the organization. According to Chen, Zhu, & Xie (2004), human capital refers to factors as employees' knowledge, skill, capability, and attitudes in relation to fostering performances which customers are willing to pay for and the company's profit comes from. Wan (2007) asserts that human capital development policies can enhance employee satisfaction and it is evident from many research studies that employee satisfaction has positive significant relation with employee performance. According to Peccei (2004), satisfied employees are more willing to work hard and put in extra effort on behalf of the organization, thus actively contributing to the overall productivity and effectiveness of the system. Employee work performance is multidimensional and significant for organizational success (Dyne, Jehn, & Commings, 2002) and effectiveness (Ohly & Fritz, 2010). Work performance is described as synonymous with behavior; it is what people do that can be observed and measured in terms of each individual's experience or level of contribution (Pulakos, Arad, Donovan, & Plamondon, 2000). George and Jones (2008) further indicated that performance can be viewed as an evaluation of the results of a person's behaviour which includes determining how well or poorly a task has been completed. Performance provides a comprehensive picture of subordinate workplace behaviour (Kacmar, Collins, Harris, & Judge, 2009).

Human capital management is an integrated effort to manage and develop human capabilities to achieve significantly high level of performance. Human capital management practices are set of practices that are focused on organizational needs to provide specific competencies. It is an approach to employee staffing that perceives people as assets (human capital) whose current value can be measured and whose future value can be enhanced through investment. According to Gartner (2015), it is a "set of practices related to people resource management," specifically in the categories of workforce acquisition, management and optimization. In addition to the traditional administrative tasks, it includes workforce planning and strategy, recruitment on boarding, employee training, reporting and analytics. What then is the purpose of human capital existence and management? It is for the purpose of working in an organization for optimum performance.

Organization is an organized group of people with a particular purpose. Performance is defined to include the action or process of performing a task or function seen in terms of how successfully it is performed. When these definitions are put together, we can say organization performance relates to how successfully an organized group of people with a particular purpose perform a function. Essentially, this is what we are speaking about when we refer to organizational performance and achievement of successful outcomes. Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard (2009), organizational performance encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment, etc.); (b) product market performance (sales, market share, etc.) and (c) shareholder return (total shareholder return, economic value added, etc.). Organizations, irrespective of their related industry, are constantly exposed to competitions. To ensure a competitive edge, it is essential to rely on their human capital as a resourceful asset. Designing a strategy to enhance productivity to improve market share of the organization is a critical area of concern (Marimuthu, Arokiasamy, & Ismail, 2009).

Literature shows that the role of human capital in increasing organizational performance is very important. It is the key element in improving productivity, performance as well as competitiveness. Undoubtedly, skilled and efficient manpower is one of the most important tools to achieve organizational goals because it has an important role in the strategic planning and increasing or decreasing the organization's productivity. Literature also reveals that human capital management is measured by using different methodologies; but scholars from across the disciplines have not been able to have a universal frame work for the measurement of human capital management to ensure effective organizational performance. Bassi & McMurrer (2007) developed a system for assessing human capital management in predicting organizational performance and guiding organizations' investments in people. The empirical research conducted by them has revealed a core set of human capital management drivers that predict performance across a broad array of organizations and operations. These drivers fall into five major categories: leadership practices, employee engagement, knowledge accessibility, workforce optimization and organizational learning capacity. These drivers are explained as:

Leadership /Managerial effectiveness: The effectiveness of managers and leaders' ability to optimize the organization's human capital through communication, performance, feedback, efforts to instill confidence and demonstration of key organizational values.

Workforce optimization: The organization's success in optimizing the performance of its workforce by means of developing and sustain talent (skills, competencies, abilities, etc.), guiding and managing its application on the job.

Learning capacity: The organization's overall ability to learn, change and continually improve. **Knowledge optimization:** The extent of organization's collaborativeness and current efforts with ability to share knowledge and ideas across the organization.

Talent retention: The organization's ability to retain, engage and optimize the value of its talent.

Hence, Organizations' strengths and weaknesses in human capital management can be assessed by monitoring the performance of each of human capital management practices that fall within five broad driver categories. In general, improvements or declines in organizational performance can be tied directly to improvements or declines in human capital management practices (Bassi & McMurrer, 2007).

The link between human capital and performance is based on two theoretical aspects. First, the resource-based view of the firm and the second is the expectancy theory of motivation. The resource based view of the firm ascertain the significance of building a valuable set of resources and bundle them together in a unique and dynamic way for the success of an organization, Stiles & Kulvisaechana, (2003). Human capital is the most valuable resource of an organization, in a real sense it is an invisible asset‘, Itami (1987). Next is the expectancy theory of motivation, proposed by Victor Vroom. According to Holdford & Lovelace-Elmore (2001), Vroom asserted that intensity of work effort depends on the perception that an individual‘s effort will result in a desired outcome. Vroom suggests that for a person to be motivated, effort, performance and motivation must be linked. According to Vroom, expectancy, instrumentality, and preferences are the three factors that direct the intensity of effort put forth by an individual. In order to improve the effort-performance relationship, managers may engage in training to improve their capabilities and belief that, added effort will lead to better performance (Montana & Charnov, 2008).

2. Statement of the Problem

Individuals, organizations and nations increasingly recognize that high levels of skill and competence are essential to future security and success. It is common knowledge that as individuals acquire more education and training during a lifetime, human capital drives the production of goods and services, as well as new innovations in the marketplace. While the economic value of human capital cannot be questioned, an important concern among scholars is if there is any relationship between human capital development and organization performance. This is the crux of the matter in this study that answer would be provided.

3. Purpose of the Study

The general purpose of this study is to look at the influence of human capital management as a concept of human resource management practice on organizational performance with special focus on the banking industry. Specifically, the study sought to:

- explore literatures and describe human capital management practices in organizations;
- examine the extent to which human capital management influence organizational performance;
- examine whether management disposition to human capital management has any relationship with career development of employees and organizational performance.

4. Research Questions

1. To what extent does human capital management influence organizational performance?
2. Does management disposition to human capital management have any relationship with career development and organizational performance of employees?

5. Methodology

The study adopted a descriptive research design of correlation type to determine if there is relationship between human capital management and organizational performance in the banking industries in Ondo town. To investigate the relationship of variables, a total of sixty two (62) permanent senior employees in five (5) commercial banks in Ondo town, Ondo State were selected out of the total 12 commercial banks in the community to represent the sample through purposive sampling technique. The data collection instrument for the study was a self designed 16-items questionnaire comprised of two parts to assess the main variables for the study. The demographic information was not acquired to minimize the bias of identification. The instrument measures organizational position on human capital management (leadership practices, workforce-optimization, learning capacity, knowledge accessibility) and organizational performance. The items were asked in continuity without any distraction, because all items were asked on same 4-point scale of Highly Influential (HI), Influential (I), Rarely Influential (RI) and Not Influential (NI) to measure variables of interest. The instrument was trial tested on 20 employees from other banks who were not part of the sample and trough a split-half technique and reliability co-efficient of 0.68 was obtained. The instrument was therefore considered reliable. The data gathered from this study were analyzed using the Mean (X) statistic and Pearson Product Moment Correlation (PPMC). The mean of 3.0 was taken as the critical value for decision such that a mean response that falls below 3.0 was considered ‘Not Influential’ while a mean response of 3.0 and above was regarded as ‘Influential’.

Table I

S/N	ITEMS	MEAN ($\bar{x}$)	REMARK
1	Processes for getting work done are well defined and continually improved and employees are well trained in how to use them	3.50	Influential
2	Employees have access to the materials and technologies they need and working conditions contribute to good performance	3.47	Influential
3	Employees are held accountable for producing high-quality work	3.42	Influential
4	Promotion is based on competence and poor performers are terminated	3.77	Influential
5	Selection is based on skill requirements to perform a designed task	3.55	Influential
6	Newly recruited employees receive adequate orientation, induction and description of required skills	3.84	"
7	Highly effective systems and processes are used to mange employees performance and talents to view the overall proficiency of the workforce	3.48	"
8	Employees are assisted to realize their full performance potential in their current jobs	3.29	"
9	Development opportunities are identified for those experiencing performance difficulties	3.31	"
10	Management prepare and motivate employees to progress in their careers	3.11	"
11	Training is practical, supports organizational goals and is provided for employees on work related technologies	3.68	"
12	Leadership behavior consistently demonstrates that learning is valued and managers consistently make learning a priority.	3.66	"
13	There are good measurements in place to optimize human capital management and organizational performance	3.69	"
14	There are developed systems to nurture knowledge management in my organization	3.27	"
15	The skills of existing staff are developed in line with business objectives to achieve optimal organizational performance	3.53	"
16	My organization has developed operational procedures to guide its activities and help employees and groups to work efficiently.	3.34	"

The responses to research question 1 in Table 1 indicates that human capital management significantly influence organizational performance with mean scores ranging from 3.11 to 3.84. This result implies that the respondents accepted that human capital management is a sine qua non and germane to any organizational performance.

Table II

Variables	Pearson r	Performance	HCM
Performance	Pearson Correlation.	1	.297(**)
	Sig. (2-tailed)		.000
	N	62	62
HCM	Pearson Correlation	.297(**)	1
	Sig. (2-tailed)	.000	
	N	62	62

** Correlation is significant at the 0.01 level (2-tailed)

The result of table 2 shows that management disposition to human capital management is positively correlated with career development and organizational performance (r=0.297, p=.000) of the employees.

6. Discussion

Based on the findings presented on table I to research question I, it has been established that human capital management significantly influence organizational performance. This corroborates the earlier studies of Huselid, Jackson & Schuler (1997) who concluded that one percent increase in human resource practices effectiveness was resulted in increase of 5.2% in sale per employee and 16.5% increase in organizational cash flows. Huselid (1997) study showed that one standard deviation change in human resource system was associated with 21 percent change in share holder value.

The result of table 2 shows that management disposition to human capital management is positively correlated with career development and organizational performance of the employees. This result generally confirms what previous studies have found that when examining the positive relationship between human capital and firm performance. Bhattacharya, Gibson & Doty (2005) reported similar results that organization human resource flexibility was positively associated with return on sales, operating profit per employee and sales per employee. The result of the studies shows a significantly positive correlation of human resource practices and organizational performance. It is also in line with Rahim et. al. (2011) who indicated that human capital efficiency has significant and positive relationships with firm's performance. The findings of this study is also consistent with that of Jamal and Saif (2011) who opined that firm's human capital has a significant positive impact on organizational performance. Also Hasanloo (2011) proved that there is a significant relation between human capital value and market values of companies. Huang and Lin (2011) suggested in their study that team work will enhance specific research and development human capital and in turn, increase higher creative performance of teams. Fan and Lee (2011) observed that research and development firm gained their innovation performance through human capital. Iqbal et. al. (2011) again revealed in their study that human capital practice is positively correlated with employees' knowledge sharing and organizational capability. This view also supported the present study. Dodaro (2012) stated that integrating human capital planning with broader organizational strategic planning is essential for ensuring that organizations have the talent and skill mix needed to cost-effectively execute their mission and program goals. Al-Ghazawi (2012) revealed that there is a significant impact of staffing, training and development, incentives and retention policy on the effectiveness of human capital, human capital return on investment and human capital value added.

In summary, the findings are consistent with well established research regarding human resource system, human capital and organizational performance - that organizations adopting the high-involvement human capital development system will enhance specific human capital and in turn, increase higher creative performance of employees and eventually enhanced the achievement of the overall goal of positive organizational performance.

7. Recommendations

- Organizations should hire the right people to do the right jobs by motivating, appraising and developing them.
- More human capital development practices should be adopted often to keep the employees up-to-date in their jobs.
- Training and development programmes should be prioritized in the banking industries and workers should be made to develop their careers by ensuring their job security and not just being used for the organizational growth; but later abandoned being useless and unproductive.

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