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HUMAN CAPITAL GROWTH AND ITS SIGNIFICANCE ON ORGANISATIONN PERFORMANCE: FACTS FROM DEVELOPMENTAL ECONOMICS

M.RAJESH
Research Scholar
S.K. Institute of Management
S.K.University
Ananthapuramu, A. P

T.MAHESH BABU
Research Scholar
S.K. Institute of Management
S.K.University
Ananthapuramu, A. P

ABSTRACT:

With increasing globalisation, human capital is getting wide concern. To accelerate the economic growth both developed and developing countries showing focus on a more human capital development by keeping necessary time and efforts. One of the fundamental solutions to enter the international market is human capital development .specifically; organisation should focus on by investing necessary resources in developing human capital which tends to have a greater impact on performance. This paper examines how human capital shows direct impact on organisation performance from various critical perspectives. Organisation performance is viewed in terms of monetary and non-monetary performance. a model is developed finally to explain the relationship between human capital and organisation performance.

Key Words: Human capital, firm performance and workforce.

Introduction

"The most valuable of all capital is, that invested in human beings."

Alfred Marshall, Principles of Economics.

In current global market, companies are composed by competitors, in spite of any industry. To develop a competitive advantage, it is important that corporations actually influence on the force as a competitive weapon. A policy for improving work force productivity to drive higher price for the corporations has become a vital focus. Organisations get to optimize their force through comprehensive human capital development programmes not solely to bring home business goals however most vital is for an extended term survival and property. To accomplish this undertaking, organisations want to invest resources to confirm that workers have the information, skill, and competencies they need to figure effectively during quickly dynamical and sophisticated surroundings. In response to the changes, most organisations have embraced the idea of human capital has a smart competitive advantage which will enhance higher performance. Human capital development becomes a part of Associate in nurture overall effort to realize cost-efficient and organisation performance. Hence, organisations want to observe human capital that will enhance worker satisfaction and improve performance. Although there is a broad statement that human capital has positive effects on organisation performance, the notion of performance for human capital remains largely new. Hence, this paper attempts to look into the association between human capital and organisation performance within the organic process social science. Therefore, the following research question is working to guide our investigation: To what extent will human capital produce impact on organisation performance? Whereas abundant of the argument within the literature in terms of things favourable to performance, this paper looks at one of the factors i.e. human capital. Organisation performance is a common issue in any organizations within the new era of globalization, where aggressiveness and innovation are norms that go with performance. This literature-based paper begins by defining the ideas of human capital and organisation performance. It then explores the human capital theory and connection between human capital and organisation performance. In the final section we develop the model and conclude the importance of the human capital as a pillar in future analysis of firm performance

Definitions of Human Capital and Organisation Performance

According Schultz (1993), the term “human capital” has been defined as a key component in rising a firm assets and staff in order to extend productive also as sustain competitive advantage. To sustain competitiveness in the organization human capital becomes an instrument comfortable increase productivity. Human capitals refer to processes that relate to training, education and other skilled initiatives in order to extend the amount of information, skills, abilities, values, and social assets of an worker that can cause the employee’s satisfaction and performance, and eventually on a firm performance. Rastogi (2000) stated that human capital is an vital input for organizations particularly for employees’ continuous improvement in the main on data, 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 dynamical business surroundings needscompanies to attempt for superior competitive blessings via dynamic business plans that incorporate power and originality. This is essentially vital for his or her long run property. Undoubtedly, human resource input plays a significant role in enhancing firms’ aggressiveness (Barney, 1995). At a glance, substantial studies were carried out on human capital and their implications on firm performance were widely coated and clearly, human capital enhancement can result in larger aggressiveness and performance (Agarwala, 2003; Guthrie et al., 2002). Meantime, there is a big relationship between innovativeness and organisation performance beneath the human capital philosophy (Lumpkin & Dess, 2005). In relation to this, the definition of firm performance could vary from one and another. Nonetheless, some clear definitions of firm performance in the context of human capital enhancement can be recommended. In some cases, financial performance measures such as share of sales ensuing from new product, profitability, capital employed and come back on assets (ROA) (Selvarajan et al., 2007; Hsu et al., 2007). Besides, return on investment (ROI), earnings per share (EPS) and net financial gain once tax (NIAT) can even be used as measures of economic performance (Grossman, 2000). Interestingly, researchers also tend to benchmark social control accounting indicators against the monetary measures in six dimension; 'workers compensation' (workers' compensation expenses divided by sales); 'quality' (number of errors in production); 'shrinkage' (e.g. inventory loss, defects, sales return); 'productivity' (payroll expenses divided by output); 'operating expenses' (total operating expenses divided by sales) (Wright et al., 2005). On the other hand, firm performance can additionally be measured exploitation 'perceived performance approach' (also brought up as subjective performance measure) wherever Likert-like scaling is employed to live firm performance from the highest management views (Selvarajan, 2007). Human Capital Theory The theory of human capital is rooted from the sphere of political economy development theory (Schultz, 1993). Becker's (1993) classic book, Human Capital: A Theoretical and Empirical Analysis with special reference to education, illustrates this domain. Becker argues that there are completely different types of capitals that embrace schooling, a computer coaching course, expenditures on medical care. And in fact, lectures on the virtues of punctuality and honesty area unit capital too. In the true sense, they improve health, raise earnings, or add to a person's appreciation of literature over a lifetime. Consequently, it is fully to keep with the capital concept as historically outlined to say that expenditures on education, training, and medical care, etc., are investment in capital. These are not merely prices however investment with valuable returns that may be calculated. From the perspective of Classical theory, human capital considers labour as a commodity that will be listed in terms of purchase and sale. This classical theory very a lot of focuses on the exploitation of labour by capital. However, unlike which means historically associated with the term labour, human capital refers to the knowledge, expertise, and skill one accumulates through education and coaching. Emphasizing the social and economic importance of human capital theory, Becker (1993) noted the most valuable of all capital is that investment in individual. Becker distinguishes firm-specific human capitals from general-purpose human capital. Examples of firm-specific human capital include experience obtained through education and coaching in management info systems, accounting procedures, or other experience specific to a explicit firm. General-purpose human capital is data gained through education and coaching in areas of price to a range of companies like generic skills in human resource development. Regardless of the applying, Becker considers education and training to be the most vital investment in human capital

Figure 1: A Model of Human Capital Theory (Swanson, 2001: 110)

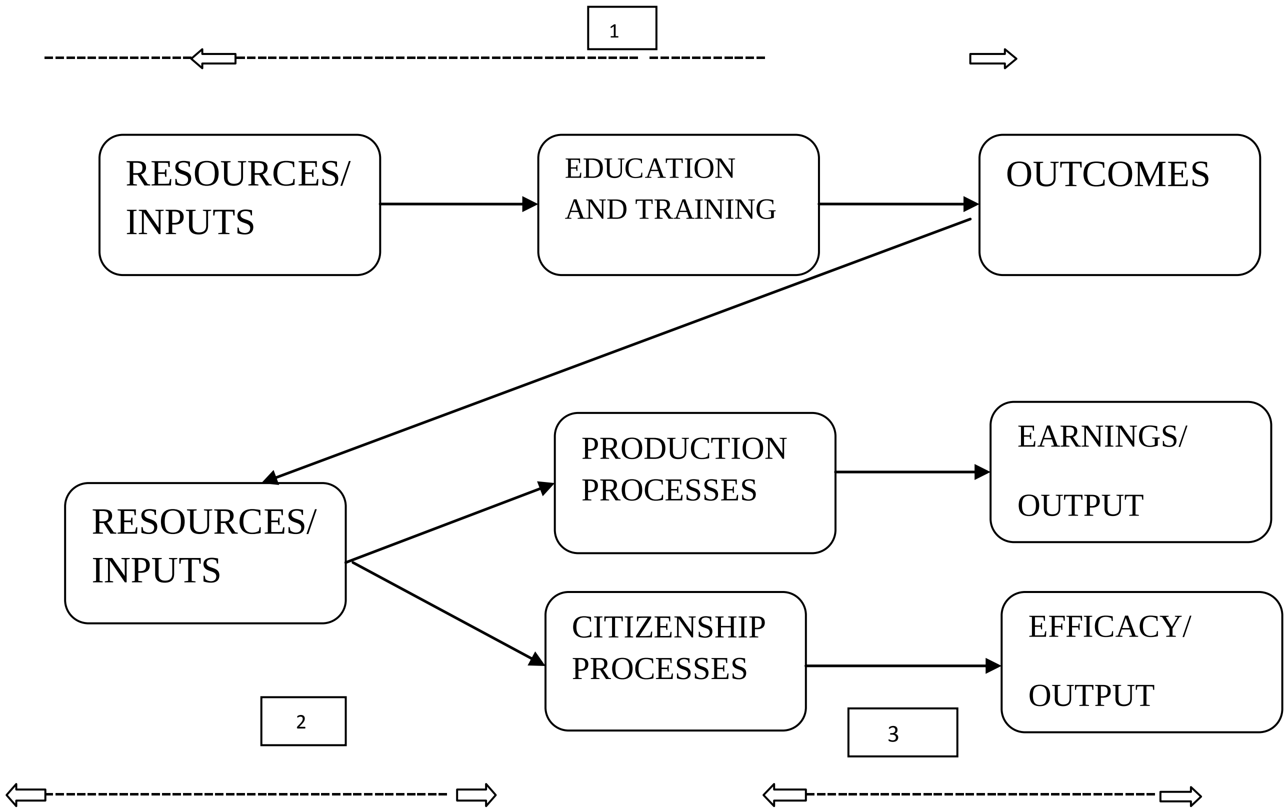

Figure 1.Presents the key relations in human capital theory and the assumptions underlying these relationships

Relationship: 1 represents the concept of production functions as applied to education and training. The key assumption underlying this relationship is that investment in education and training results in increased learning.

Relationship: 2 represent the human capital relationship between learning and increased productivity. The key assumption underlying this relation is that increased learning does, in fact, result in increased productivity.

Relationship: 3 represent the human capital relationship between increased productivity and increased wages and business earnings.

The key assumption underlying this relationship is that greater productivity does, in fact, result in higher wages for individuals and earnings for businesses. As per conclusion, human capital does contribute to the organizational advantages and profits. The entire human capital scale represented is assessed using return-on-investment analysis or cost-benefit analysis. The human capital theory is an important agent for boosting organisation performance. Thus, this study has capitalized on this theory for saying that human capital becomes an element in organisation performance.

The Relationship between Human Capital and organisational Performance

The human capital focuses two main components which is individuals and organizations. This idea have more been described by Garavan et al., (2001) that human capitals have four key attributes as follows: (1) flexibility and adaptability (2) improvement of individual competencies (3) the development of organizational competencies and (4) individual employability. It shows that these attributes in turn generate add values to individual and organizational outcomes. There are various findings that incorporate human capital with higher performance and sustainable competitive advantage (Noudhaug, 1998); higher organizational commitment (Iles et al., 1990); and enhanced organizational retention (Robertson et al., 1991). Hence, all this debates basically focuses on individual and organizational performance. From the individual level, Collis and Montgomery (1995) point out that the importance of human capital depends on the degree to which it contributes to the creation of a competitive advantage. From an economic point of view, transaction-costs indicate that firm gains a competitive advantage when they own firm-specific resources that cannot be copied by rivals. Thus, as the individuality of human capital increases, firm have incentives to invest resources into its management and the aim to reduce risks and capitalize on productive potentials. Hence, individuals need to enhance their competency skills in order to be competitive in their organizations. The human capital theory has undergone a rapid development. Within its development, greater attention has been paid to training related aspects. This is much related to the individual perspective. Human capital investment is any activity which improves the quality (productivity) of the worker. Therefore, training is an important component of human capital investment. This refers to the knowledge and training required and undergone by a person that increases his or her capabilities in performing activities of economic values. Some recent literature shows the importance of training. In any case, it is fitting to point out that the workforce's lack of training is related to low competitiveness (Green, 1993). In turn, a greater human capital stock is associated with greater productivity and higher salaries (Mincer, 1997). Likewise, training is linked to the longevity of companies (Bates, 1990) and greater tendency to business and economic growth (Goetz and Hu, 1996). In addition, 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 a valuable asset, which is positively associated with business performance. Finally, investment in training is desirable form both a personal and social perspective. 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. Another study by Seleim, Ashour, and Bontis (2007) analysed on the relationship between human capital and organizational performance of software companies. They found that the human capital indicators had a positive association on organizational performances. These indicators such as training attended and team-work practices, tended to result in superstar performers where more productivity could be translated to organizational performances. This was also supported by Dooley (2000) who found a significant positive correlation between the quality of developers and volume of market shares. Based on the above arguments we can conclude that human capital indicators enhanced the firm performance directly or indirectly. A study by Bontis and Fitzenz (2002) found that the consequences of human capital management and they established the relationship between human capital management and economic and business outcomes. In this study, a total of 25 firms in the financial services companies were selected. The study measured human capital effectiveness with four metrics; revenue factor, expense factor, income factor and HC ROI. The fundamental aspects of any organization are to generate more revenue and income per employee. Human capital has a direct impact on the intellectual capital assets that will yield higher financial results per employee. The development of human capital is positively influenced by the educational level of employees and their overall satisfaction. 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. In the meantime, firm performance and human capital could also be viewed in the context of high performance work systems (Hsu et al., 2007). It is argued that the formation and emphasis on the human capital enhancement will result in high performance or rather high performance work systems. Admittedly, human capital development and enhancement in organizations tend to create a significant contribution on organizational competencies and this in turn becomes a great boost for further enhancing innovativeness and the current literature to a large extent supports the fact that firm performance is positively impacted by the presence of human capital practices (Noe et al., 2003; Youndt et al., 2004). 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). In addition, evidence shows that the relevance of human capital to firm performance has also become prevalent among the technology-based new ventures, and it seems that the use of human capital tool (emphasizing quality of employees) per say in small technology based new ventures tends to have a great impact on the firms' success (Shrader & Siegel, 2007). In the meantime, human capital enhancement can also be viewed in the context of top management team (TMT). Heterogeneity or sometimes is called diversity in TMT will tend to lead to greater performance because the argument is heterogeneity promotes various characteristics to be absorbed into the workforce team; this includes people of different age groups, functional backgrounds, education backgrounds, tenure and gender. These characteristics have a positive impact on firm performance as argued under the upper echelon theory (Hambrick & Mason, 1984). Studies reveal that heterogeneity cultivates greater knowledge, creativity and innovation among the team members (Watson et al., 1993; Maimunah & Lawrence, 2008). Heterogeneity is positively linked to better problem solving and offering creative solutions (Michel & Hambrick, 1992). Hence, diversity is positively related to performance. Even in the context of an organization, the implementation of certain management approaches or philosophies also deals with the infusion of human capital (e.g quality circles, team of employee's experts) especially when faced with problems (Kanji, 1997). Again, in a very broad discussion, especially in the context of total quality management (TQM), firms can be assessed using financial and non-financial performance. The financial performance includes employee productivity, defect rates and market share and non-financial performance that include workflow improvement, innovation, customer satisfaction and skills development (Kaplan & Norton, 1994). Besides this, diversity is able to attract and retain the best talent available; reduced costs due to lower turnover and fewer lawsuits, enhanced market understanding and marketing ability, better problem solving, greater organizational flexibility and better overall performance and improvement in decision making at strategic level (Bantel, 1993). Heterogeneity is positively linked to better problem solving and offering creating solutions (Michel & Hambrick, 1992). A recent study in the related area also provides some insightful information about the heterogeneity effect on firm performance (Maran, 2008). Undoubtedly, heterogeneity (in the form of human capital) can be a significantly important input to human capital development and enhancement as it makes organizations to be more creative and innovative for long term survival in their international and global markets (Grossman, 2000). In light of this, the competency of TMT is supported by the input-based international human capital, transformational human capital and output-based international human capital (Huang et al., 2002; Wu et al., 2002). However, some even argue that the relationship between innovative human resource practices (though human capital practices are not directly involved) and organizational performance could be described as 'non-linear' (Becker & Barry, 1996; Chadwick, 2007).

Conceptual Model

The purpose of this study is to point out the link between human capital and organisation performance a model was developed. We recognize within the earlier discussions human capital includes training (coaching), education, knowledge and skills that can enhance human capital effectiveness. Based on literature reviews postulates that human capital ends up in larger organisation performance. Organisation performance can be categorized into two: monetary performance and non-monetary performance. Monetary performance includes output (productivity), market share, profits and non-financial performance includes customer satisfaction, workflow improvement, skills development, innovation.The details were given in figure 2

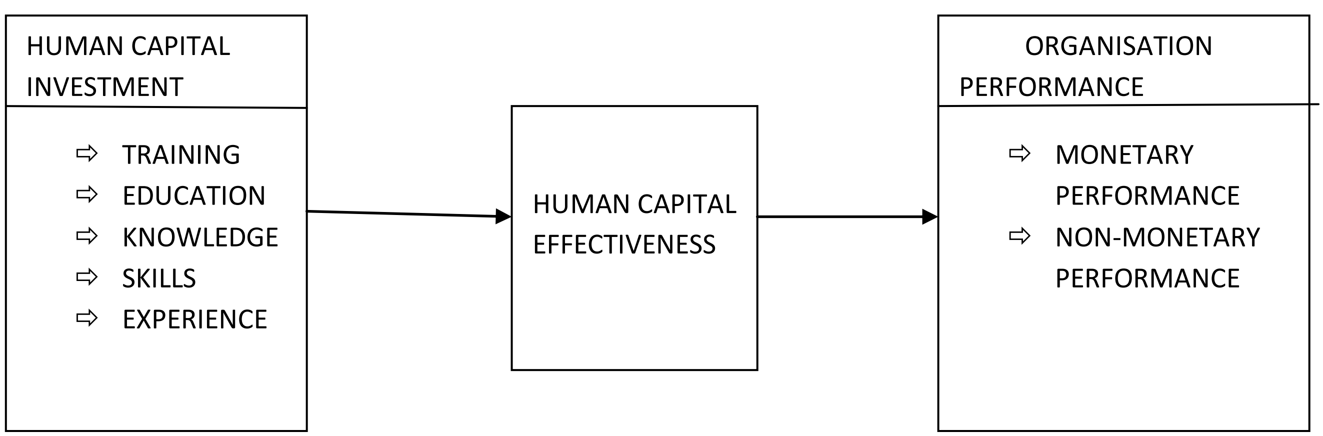

Figure 2: Conceptual Model linking Human Capital Investment, Human Capital Effectiveness and organisation performances

Conclusion

This paper examined the present literature on human capital and its impact on organisation performance. The idea of human capitals is closely linked to some fundamentals of economics and organisation performance. The literature reviews show that there are reasonably strong facts to show that the infusion of 'human capital enhancement' in organizations promotes innovativeness and greater organisation performance. Studies also clearly validate the fact that monetary performance is positively impacted through the consideration of human capitals.

In light of this, to grow and adapt, the organisation's leadership must recognise the value and contribution of people.

Treating money spent on people as an investment in an important asset is a far more appropriate mindset that treating such expenditure as an expense, to be kept to the minimum amount necessary

Hence, organisations should therefore, approach with some effective strategy especially in investing the a variety of aspects of human capital as not only does it direct organisations to achieve greater performance but also it ensures organisations to remain competitive for their long term continued existence.

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