

# **Human Capital Development and organizational performance: review & critique of literature and A research agenda**

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## **ABSTRACT**

*Given the competition in organizations and Technological trends in the current labour markets firms considering to grow and retain the position, demand and supply for labour in the market has been saturated. The bargaining power in the market depends on skills and scarce resource available. Different theories in relation to human capital have been articulated. Most organizations would want to employ people who will add value to their organizations in terms of production in order to achieve competitive advantage. Different pay rates are applied depending on the qualification of individual, for the organization to invest in employee's development they will assess how they are going to benefit. The aim of this study was to find out how human capital development affects firms performance. Based on published literature and past studies analysis was done to support the study, there was appositive link between HCD and firms performance so to retain and maintain the flow of skills the organization needs to invest in human capital to curb the mass exodus of people going outside the country to look for jobs and patients being taken outside the country for treatment while they can get the same service here. Exploratory research design has been recommended for future research.*

**Keywords:** Human capital, development, Management, Firm Performance

## **1.0 Introduction**

Human Capital Management (HCM) is how a person can carry out work using the skills and knowledge acquired in order to add value to the country's economy. (Kearns 2005) describes it as a to Human Resource Management from the traditional approach. HCM deals with analyzing the obtained data and report it so as to give direction of importance to management of people in order to have strategic investment in the firm and to be able to make better decisions. Management regards HCM as an asset and uses Metric as a tool of measure to guide them so as to achieve a competitive advantage by investing strategically in these human assets through developing them giving them more work so as not lose them (retain them) making

use of employee to be useful and productive in the firm, managing talents and offering more learning programmes (Armstrong. 2006)

Economies of developing and developed countries depends on human capital development, this will include building the process through which inculcation of relevant skills. Technical knowledge and effectiveness to meet set goals is known as HCD (Obadan and Adubi 1998). Sengupta 2011 “a major paradigms shift favouring economies with knowledge has been shown in economic growth, human capital has substituted industrialization Research and Development (R&D) has been driven by human capital hence a pillar of countries economy”

Human capital has its historical origin in the *Political economy journal of 1966* by B.F. Kiker and published in the Journal of Political Economy in 1966. human capital was traced from the 17th century to demonstrate the power of cost on lost life in war and other death. The contributors of Economics of Human Capital suggested methods of investments in human beings in order to generate return, They included ( Jean Say Baptiste 1821, Adam Smith 1776, Roscher William 1878, John Stuart Mill 1909, Sidgwick Henry 1901). Throughout the studies the evolution of Theories addressing Human Capital issues have been used in public policy matters which remain the subject that is studied in the theory today, theory today, this included the powerful Nation that invest in education for a productive Nation both with skills and knowledge

Human Capital has been emphasized on in organizations this reflects the how the market value relies on less resources that are tangible, but on intangible resources, especially human resources. Attracting, employing and retaining the right employees, fulfills this equation. The organization can develop skills by encouraging employees to continuously emprise learning by encouraging and supporting them and creating a conducive environment. Human Capital is defined by OECD (2001) as competencies, skills, knowledge and attributes that individual posses that enables them to create social, personal and economic value. Human Capital are important aspects in work force and production hence they need to have formal learning to acquire knowledge, on job traing to gain skills and compitencies to perform work and leadership qualifications

The success of every organization depends on Human capital Mahroum (2007) had suggested that the capacity to develop talent, deploy it and continuously attract it depends on human capital management to be competitive and have an advantage over other firms. With the changing technological trends and globalization most employees would want to be associated with an organization that has a name in the market. Human capital is the key pillar for of any organization to succeed. Mahroum (2007) suggested that human capital management is based on main specific capacities which included, talent development, talent deployment and capacity to attract talent from elsewhere. This capacities help the organization maintain a competitive edge in the market.

Failing to have human capital development makes it hard for workers to deliver the quality of products that customers need. Currently in Kenya, the demand from clients for higher quality of, education, health and skilled labour is also causing concern in the labour market, about lack of skills and should lead to a new interest in training. Again, the influx of patients being taken to foreign countries for treatment (cancer patients) and qualified personnel like Teachers, Engineers, Doctors and Nurses opting to work in foreign countries, It is in this regard that, this dissertation seeks to look into the effect of human capital development and firm performance in Kenya the focus will in Public Hospital's

## 2.0 Literature review

### 2.1 Theoretical review

**Human capital theory:** The intangible assets an individual possess that is knowledge and skills, are used to raise individual values economically for themselves, employer plus the society at large. Investment in Education pays off in terms of **human capital** higher productivity. The human capital theory emanated from the theory of macroeconomic development (Schultz 1993) education is given important preference. According to Becker we have different kinds of capitals which includes medical care expenditures, computer training, and schooling. He teaches on time management, being honest are also investments

Human capital considers labour as an item that can be bought and sold. This theory concentrates much on exploiting labour. Education and training makes employees acquire skills, expertise and knowledge needed to perform, which is more valuable so a lot of consideration has to be given it in terms of investment in people. To distinguish firms specific and general human capital, general is gained is through education while specific is done through areas of expertise like, Accounts, engineers. Therefore training is considered a special investment in employees (human capital).

**Resource Based view Theory:**For a competitive advantage to be attained a company has to strategically place itself to counter the external forces in the environment so as to position itself in the market. There the internal resource which includes Human Capital has to be acknowledged as a crucial resource to be sustained effectively (Wright *et al* 2001).Resource Based View (RBV) was started by the works of Penrose (1959), the many researcher articulated to it like Barney (1995). The RBV articulates the needs for an organization developing valuables resources and put them together so as to succeed in a unique way, other resources in the organization can be imitated examples use of Technology, availability of natural resources but Human Capital's knowledge cannot be imitated because each person has special uniqueness (tacit knowledge) hence rare and difficult to copy or imitate so they are valuable resources within the organization though its an asset that can't be seen (Itami 1987)

If all employees with different talents are put together and managed well through Human Resource process (Training and development, reward management, employee relations etc.) then the organization positions itself strategically in a rare manner. That is unique compared to its competitors, most organizations creates barrier's

for imitation (guarding that rare resource they have) and cannot be acquired in the market easily they strive to keep resource they by retaining and continuously improving them through Training and Development.

**Social Capital theory:** Nahapiet & Ghoshal (1998), described social capital theory as what puts together the resources are valuable how they relate in social affairs and networks, knowing each other mutually, this brings efficiency on they act since they cooperate and behave in a similar manner, hence the relationships they socially can have apposite influence on the development of human capital intellectually, both at an individual level 'networks with people with similar characters, professions' ( For example Doctors meeting at their joints or social clubs during their leisure time to network and share ideas ,new acquaintances to current and changing trends). This develops human capital (Garavan et al 2001). At an organizational level social capital is very important since intellectuals exchange ideas that are useful in the running of the organization. So networking is key since you learn from other new knowledge and information that is needful and creates identity, i.e. you identify yourself with a particular social class this connections cannot be imitated they are rare and they last based on trust, building a pool of knowledge and creating value

**Evolutionary Growth theory:** Nelson and Winter (1985) Viewed Evolutionary growth theory as a biological emerging in economics, that's something that is coming up in upcoming firms would want maximize profits subject to the level of knowledge they have, so they have to improvise ways of doing business in order to make them capture and retain the market, so when it fails it becomes difficult to rejuvenate it given the competition surrounding them. So will look for something closer, to what they had initially and if it succeed then it will survive and if not then it's eliminated. The essence of this theory is like an experimental exercise in the new product economic growth so human capital needs to learn do more research hence becomes an important asset in the organization

## **2.2 Empirical review**

**Human Capital Development:** Importance of Human Capital depends on the degree of its contribution towards the creation of competitive advantage. Schultz 1993 views HC as an element that improves employees and firms assets so as to improve productivity and compete in the market, The practice of training of professional, imparting learning in order to acquire skills, knowledge and ability for the employee to be satisfied in order to be motivated to perform. The skills and knowledge person holds will allow them to work for economic value. (Romer 1990) defines HC as a major source of economic growth in the country hence meet targeted level of living standards hence the drive behind sustainable economic development it's the main pillar of economic growth which 'has (either acquired or inbuilt) components; knowledge and education got through education, competence, skills and expertise that be earned through on job training and practice (apprenticeship), Human capital concept arose from recognition of individual firms to invest in its human capital by Training and sponsor for education outside the firm in institutions, as you cannot go wrong in education and the best investment. This includes payment of fees for tuition and training, the employee or organizations strives to gain a return on investment. Wealth maximization both

on individual and organization can be expected on return on investment is greater than market rates or expected rate of return after investing on human capital.

**Training and Development:** Michel Armstrong (2001) describes Training is a systematic growth of knowledge, attitude and skills an individual needs to work. Edwin flippo (1984) views Training as a way of adding skills and knowledge needed to work, therefore Training is concerned with acquiring knowledge and skills hence its aprocess of learning, according to Aswathappa (2000) Talents are developed renewing the old ones and new employees are given jobs, hence training is a continuous process to enables employees perform their jobs effectively

Training Needs Analysis (TNA) is done so as to identify needed areas to be trained. Training plans are developed that suits the needs; knowledge needed to perform the jobs can be evaluated after training to ascertain if they have been acquired. Training is an important element int human capital development. The growth a person realizes in his ability is Development, and the programs are usually done in phases of planned study and experience, and coaching is done to support it Development happens when more experience gained is conceptualized to show its confidence gained for acting and how to relate to such action (Bolton, 1995).

**Job Rotation :**Job rotation is the shift of employees in various positions within the organization so as to fulfill various Human Resource objectives like enriching the employees, new employees getting acquainted to their areas of work, developing career, employees learning avoiding getting bored and reducing burnout. The Job Rotation plans involves employees in temporary tasks in a particular department and for a short period as assigned duties of that positions. It's a voluntary task and it's treated as part of their normal jobs. According to Edward (2005) job rotation is the movement of employees from one job to another within the organization so as to build on employee's values and capability in the firm

Employees given new assignment to perform on temporary position for a specific period is Job Rotation. This enables employees to be exposed and are able to perform in various capacities. This is an advantages to the organization such that in the absence of a particular employee work continues as employees are enriched with skills to perform in any capacity. Job Rotation was first established in Denmark in the 1980s, and may be put in use in many to fulfill development needs of companies and workers without disrupting the firm's process. Job specialization is concentrating on one job in one's ability hence the opposite is job rotation. Human Resource Development Council (HRDC 1997) views Job Rotation as strategy to develop individuals career which is learned in a temporary position of a particular job HRDC encourages employees to retain their position or designated duties a part from performing other tasks in the organization. This enables the employees to work all round and have knowledge of all areas in the organization.

**Career Planning and Development:** Career planning is a sequence of employment one explores in their abilities and plans strategically to achieve their goals so as to succeed by continuous learning for growth. Career employment that one can hold during the course of his lifetime. Schermerhorn (2002)" defined

Career planning as a systematic way of matching career goals as individual is able to acquire to fulfill their dream . it started in USA in 1970s and its process that enables employees to grow and identify opportunities as one develops themselves they can be promoted to higher positions, hence growth on individuals who work hard and this is a another way of motivating employees, this avoids employees from stagnating in one position. In order for the organization to prosper it needs to develop its employees

**Knowledge Management:** Knowledge is only asset that an employee can offer to the firm in the current competitive environment so as to have an edge over the competitors (Prahalad & Hamel 1990). Knowledge can be offered on individual basis or can be part of management system concept, Back and von Krogh (2003) viewed Knowledge as an on going transist in a logical process as follows capturing and initiating, they learn from each other and using it. knowledge management contributes to high production the organization as one the cost-cutting element in a competitive environment (Thompson 2003). Human resource management (HRM) Views knowledge management as part of its functions because it is about people and its part of HRM. (Evans 2003) analysed knowledge management as an entity of mapping intellectual assets within the organization. Studies is a process of learning so as to acquire skills, knowledge, values. Beliefs and habits for competitive advantage.

**Education:** Education is the sequence of learning as to acquire, skills, knowledge values, beliefs, and habits. Human characters and behavior are molded and shaped, methods to deliver education may include, discussion, storytelling, teaching, training, lecturing directed research. And its guided by the Educators or facilitators, but learners may also do the research and educate themselves, it can take be formal or informal way and through Education employees can be Developed to improve in performance and it helps individuals to tell between the true and false

**Skills:**An ability and capacity to know how to perform a particular job, ways to relate with others in a smooth manner. Skills can be acquired through learning either formal or on job training like apprenticeship

**The Relationship between Human Capital and Firm Performance:** Organizations and persons are focused on by human capital. Garavan et al (2001) views Human Capital to encompasses, Personal Competencies, adaptability and flexibility, organizational competencies for development and personal employability and these adds values to both employees and organizational results. (Nordhaug, 1998) attributes to different views have incorporated HC with a firms competitive advantage that can be sustained for higher performance. Doucouliagos (1997) Motivates employees, raises their morale plus engagement to perform, a lot is invested on Research and Development which gives room to acquire knowledge and skills. And for upcoming employees to grow so as to improve the economy and the society benefits. Seleim et al., (2007) studied on how HC relates with organizations performance. This argument was studied by Dooley (2000) who got similar results. It has established a positive relationship and hence paves way for greater innovation for firm's performance.

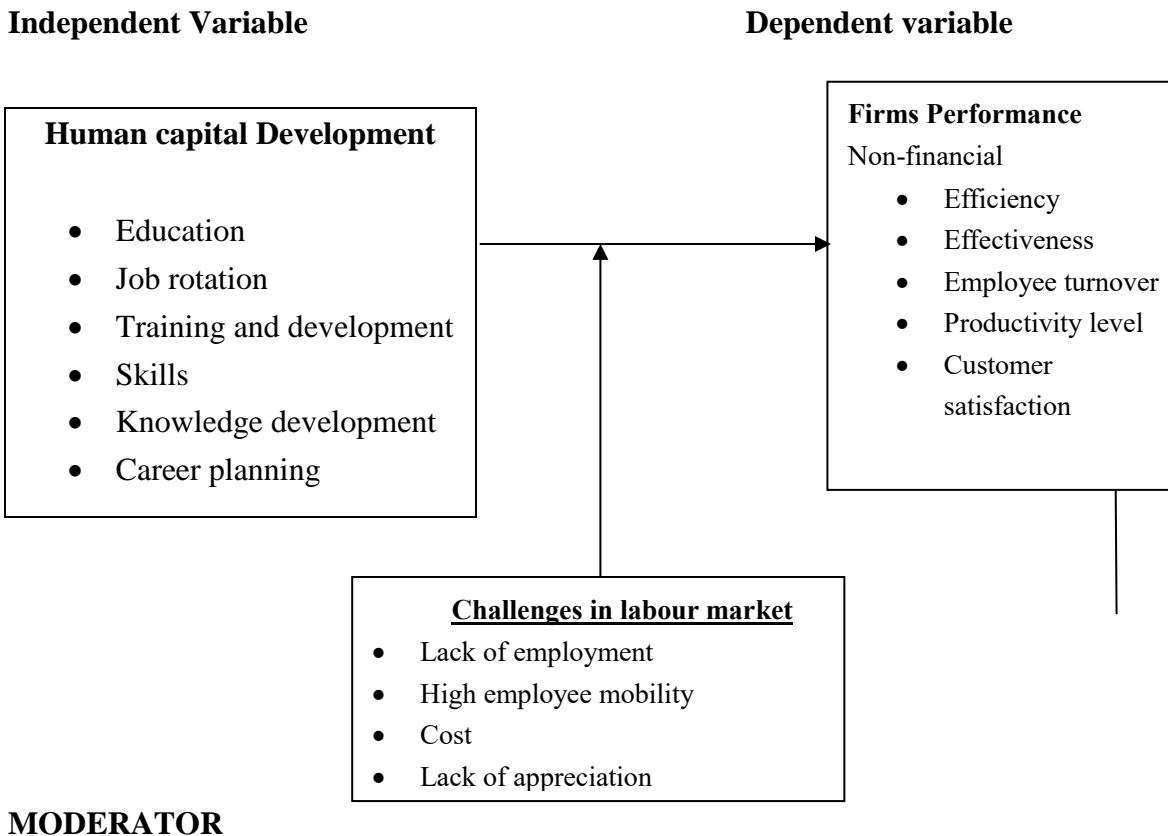


### 3.0 Conclusions and future research direction

#### Proposed Conceptual Framework

It is used present a preferred approach to a thought. Likewise conceptual frameworks direct the collection and analysis of data. It refers to the organization of ideas set forth to achieve a study or a research project’s It’s the way ideas are organized to achieve a research project’s goal (Shields & Rangarajan, 2013).

Figure 3.1 Conceptual Framework



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#### Proposed Methodology

The study will adopt exploratory research design. As suggested by the previous researchers and being the basis of the Gap by previous researches The data collected will both qualitative and quantitative. Questionnaire will be administered with both closed and open –ended questions will be of essence to this study. The data will be collected through questionnaires to allow the researcher to come up with any perceived differences in Human Capital Development and organizational performance.

#### Research Gap

Human capital development plays a major role in organizations in trying to enhance performance. However little has being done to show that there is need to develop and retain the employees, Most studies has focused on Training as the Main Component of Human Capital Development, Little has been done or

focused on the labour Markets as when we have many Trained people out in the Market with fewer jobs this may lead to people opting to go and work outside the Country, Little has been talked about Pay and structure so to retain the employees, so most Firms would Develop their employees just as ground to gain experience then they move for greener pastures, on that note apart from Training as has been emphasized a lot should be looked into Labour Markets and Pay structures however there is indeed a relationship between Human Capital Development and organizational performance in most countries.

Most Organizations have emphasized on human capital development which reflects the view that market value depends less on tangible resources, but rather on intangible ones, Main human resources. Getting (recruiting) and keeping (retaining) the best employees, however, is only part of the equation. The organization also has to leverage the skills and capabilities of its employees by encouraging individual and organizational learning and creating a supportive environment where knowledge can be created, shared and applied.

Empirical studies confirm research findings, giving strong links on the employment of graduates, even professional scientists and engineers, with the adoption and use of high-level technologies in the firm, and between the extent of investment in worker training with the current Technological Trends where Technology has to be embraced (Pfau and Kay, 2002; Low and Kalafut, 2002). This confirms the fact that more Educated and Skilled employees will easily adopt to Technology and merge the current labour Trends and efficiently perform in competitive environments (Low and Kalafut, 2002). Both informal and formal education play a major role in the ability to be innovative and creative on the job.

This paper has explored the concept of human capital development and organizations performance. From literature it has emerged that a relationship between human capital development and organizations performance exists, The direction of any future research is then invited to demonstrate in detail how the relationship between human capital development and organizations performance can be worked on as we have seen from the above gaps and this creates research agenda for further studies

## **Conclusions**

The purpose of this study was to find out the relationship between executive Human Capital Development and organizational performance, to analyze the contextual, theoretical and methodological gaps and provide a conceptual framework of the relationship. This was to analyze the significance between the existing literature on Human capital Development and performance as established. Human Capital Development has become very necessary as most firms would want to perform better than the others, because of competition, Lack of human capital development makes it difficult for workers to deliver the quality of products that more discerning customers require. Currently in Kenya, the demand from clients for higher quality of, education, health and skilled labour is also causing concern in the labour market, about lack of skills and should lead to a new interest in training. Again, in the case of health Sector the influx of patients being taken to foreign countries for treatment (cancer patients) and qualified personnel like Teachers,



Engineers, Doctors and Nurses opting to work in foreign countries causes. More so, the methodological gaps need to be bridged to make the studies relevant. It is hoped that the conceptual framework, methodological gaps and propositions will stimulate further research on Human Capital Development and its relationship to organizational performance to be relevant. Hence i recommend for future research.

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