



Factors Affecting Human Capital Development: A Model for Operational Effectiveness in Human Resource Practice

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Abstract

The concept of human capital refers to personal attributes that are key factors in economic and business processes. These personal attributes encompasses the knowledge of employees, skills, education and health which employees use to do certain activities for the organization. Human capital has a huge impact on earnings of the business and how the goals are accomplished. Many researches have attested to the significance of investing in human capital so that high economic returns are achieved. Companies must invest in human capital development by allocating resources that will help employees to fully possess the needed knowledge and skills to become better performers at the workplace. This paper presents some of the important factors affecting human capital development and its impact on the business organizations specifically on how to achieve operational efficiency through a highly qualified employees.

Keywords: Development, Factors, Human Capital, Model, Operational Effectiveness.

Introduction

There has been much research already conducted on human capital development and on the impact of human capital on economic growth and productivity. So, we chose a different approach in which we aim to assess the factors affecting human capital development in terms of education, skills, training and development, and organizational commitment, work experience, judgment, abilities, knowledge and presents a model for operational effectiveness in human resource practice.

In the recent decade, the development of human capital is so important and critical not only to the economic and social health of the country but also to the nations of the world. Today, it is widely acknowledged that human capital is of utmost importance for the economic performance of an organization and country (Simko, J. et al, 2015). As Andrew Carnegie, Steel industry legend, once said, "Take away my people, but leave my factories and soon grass will grow on the factory floors. . . . Take away my factories, but leave my people and soon we will have a new and better factory." The importance of human capital, therefore, should not be taken for granted if we are to seriously consider organization success.

In actual studies in business, it has been proven that the biggest, most valuable asset any company has is its people, hence, the average executive spends three-fourth of his working day dealing with people. Besides, the largest single cost in most businesses is

people. These are not theories but based on the actual studies supported by empirical evidence. In fact, no less than the former U.S. President Theodore Roosevelt clearly stated that "the most important single ingredient to the formula of success is knowing how to get along with people." This is diametrically similar to the pronouncement made by John D. Rockefeller who said "I will pay more for the ability to deal with people than any other ability under the sun." There lies the importance of human capital – the group of people who work for an organization.

Although, admittedly, the concept of human capital is an inexhaustible subject to deal with, this paper will try to discuss it in depth and will attempt to describe the streams of thoughts, ideas and theories that contributed to its development and further explain the role of education, skills, training and development, organizational commitment in today's human capital development.

LITERATURE REVIEW

Nature of Human Capital

Knowing the basic concept of human capital is very important. Otherwise we might fall into the trapping of confusion if we will not understand fully the term human capital in its basic concept. There may be hundreds of definition of human capital ranging from simple to complex, based from different point of view, using different framework and different opinion. In economics, human capital is the sum of knowledge, skills, experience and social qualities that contribute to a person's ability to perform

work in a manner that produces economic value.

According to Aunindita (2010), human capital can be referred to the people who have the knowledge and competence to perform their job. In other words, it is the collection of all of resources. It comprises all out knowledge, abilities, talents, skills, intelligence, training, judgment, and experience, etc. In effect, these are the factors affecting human capital development, the subjects of this research paper.

In a deeper context, however, human capital is not limited to the physical labour of the people who work for an organization. As one writer has it, human capital is “the entire set of intangible qualities those people bring to the organization that might help it succeed.” These includes education, skill, experience, training, creativity, personality, good health, and moral character. But, in its most basic sense, human capital refers to the group of people who work for or are qualified to work for an organization – the workforce.

Roots of Human Capital

The roots of human capital can be traced to the 18th century writings of Scottish economist and philosopher Adam Smith, who in 1776, called it “the acquired and useful abilities of all the inhabitants or members of the society.”

In 1859, Karl Marx, a Prussian philosopher, called it “labour power,” and suggested the idea of human capital by asserting that in capitalist systems, people sell their labour power (human capital) in return for income. Karl Marx even averred that in order for this human capital contract

to work, employers must realize a net profit. In short, workers must do work at a level above and beyond that needed to simply maintain their potential labour power. When we go down to fundamentals, it simply means that if labour costs exceed revenue, the human capital contract is failing.

Since the early days of the foundation of human capital, organizations and nations of the world have instituted various mechanism of addressing challenges and issues concerning “labour power” as Karl Marx called it.

Through the centuries, the application of what today would be called human capital theory has been applied to address many issues of public policy. Most of these issues remain the subject of that theory today. These include the power of nations, the effects of migration, investments in and regulation of safety, investments in health, economic development and education policy and investment (<http://www.jstor.org/stable/1829595>).

For example, Vietnam development over the past 30 years has been remarkable. Economic and political reforms under Đổi Mới, launched in 1986, have spurred rapid economic growth, transforming what was then one of the world’s poorest nations into a lower middle-income country. Vietnam is ranked 48 out of 157 countries and territories in terms of human capital index (HCI) with a 0.67 score, which is unchanged from last year, claiming the second spot in ASEAN behind Singapore (http://%28databank.worldbank.org/data/download/hci/HCI_2pager_vnm.pdf). Even though the human capital index (HCI) of Vietnam exceeds the global, regional, and

even upper-middle-income country averages, the country also faces challenges in ensuring high-quality human resources as well as narrow the gap between ethnic minorities (Vietnam Investment Revenue, 2019).

According to the World Economic Forum (2013), human capital that is efficiently put into use is more important determinant of economic success than any other resource.

Growing Trend on Human Capital Development

Employers today need a variety of new human resource management approaches and practices to hire and engage their employees. They are always in a proactive stance to anticipate the uncontrollable effect of the ever-changing environments. Even the level of technological sophistication brought about by technological advanced influenced the manner on how businesses developed human capital. In fact, there are some that put more emphasis on their workers' skill, training and education, some on experience and expertise. Hence, business organizations or employers faced the challenge to manage workers differently based on the nature and character of the business and type of jobs to be undertaken.

There is a growing trend to upgrade human capital development as a result of the accelerating phase of environmental change considering that "the acquisition and development of superior human capital appears essentials to firms' profitability and

success" (Dessler, 2017). Dessler's statement is undoubtedly true and by analogy similar to the previous statement made by Karl Marx that, "when labour costs exceed revenue, the human capital contract is failing."

Organizational Support

Employers must realize profits through the efforts of human capital. Therefore, the same must be developed, supported and protected by the institution it represents. Tom Stewart, former editor of the Harvard Business Review, noted that organizations must also undergo significant efforts to protect human capital. This is so because human capital is the most sublime among the organization's resources and plays a vital role in creating wealth in organizations. It can be a tool that drives productivity and creates an organization fit for the future. It can make and unmake an organization.

As pointed out by Dess, et al., (2019) once employees feel that they are being protected by the management, they are less likely to leave an organization especially if there are structures to promote teamwork and information sharing, strong leadership that encourages innovation, and cultures that demand excellence and ethical behaviour. We called this "perceived organizational support (POS)" which Robbins, S. P. et al (2019) defines as the degree to which employees believe an organization values their contribution and cares about their well-being.

The Role of Education

Human capital is the accumulation of investments in people, such as education and

on-job-training (Mankiw, 2018). In the words of Mateer (2014), human capital is the skill that workers acquire on the job and through education. So, the most important type of human capital is education. It is because education acts as a medium or foundation to human capital development (Zulkifli, 2017). Like all forms of capital, education represents an expenditure of resources at one time to raise productivity in the future. But unlike an investment in other forms of capital, an investment in education is tied to a specific person, and this linkage is what makes it human capital. There are studies concerning the patterns of investment in education in a national scale which show that in the developing countries of the world, e.g., the governments are giving priority to primary education for increasing literacy rates. Secondary and higher levels of education, which provide critical skills needed for economic development, remains neglected.

The close relationship between human capital and economic growth is undeniable. Human capital is affected directly and indirectly by education which plays an important role in both accumulating human capital and increasing economic growth (Bouzekri, 2015). To be more precise, if the people of an organization are well educated They are said to have more human capital.

One of the more common measures of human capital is the average years of education of the labour force. Education investment or expenditures has been empirically proven to increase human capital. In the study of Diaz (2015) on human capital development, the result shows that if economy growth increases, the demand of

human capital with three education level also will increase. According to Simko, et al (2015), education of an individual will determine the higher earnings which is an important key to human capital development. With education, people can enhance their skill and expertise to contribute to the economic growth. The notion behind this is that expenditure on education influences the distribution of additional human capital stock amidst various household groups through improved labour skills. Idrees and Siddiqi (2013, p. 174) agree, that “education expenditures are crucial for human capital formation” and that there is a significant relationship between education expenditure and human capital formation. This has of similar findings to the research paper by Baah-Bonteng (2013).

Marlet and Van Woerkens (2004) stated that individuals who are more creative and highly educated have a higher income and take part more actively in city life, therefore they spend a larger share of their incomes in local bars, restaurants and theaters, creating amenities and quality-of-place and stimulating employment growth in local services. Moreover, Moretti (2004a) considers that workers from a city with well-educated labour force are likely to have a number of skills which will make them more productive than workers with the same level of education, but who come from a city with less-educated labour force (Mankiw, 2018). So that firms on the demands of labour – are willing to pay more on highly educated workers because these workers have higher marginal products. Workers – the suppliers of labour – are willing to pay the cost of becoming educated only if there is a reward

for doing so. Mateer (2014) clearly stated that attaining more education leads to higher earnings. All of those notions and approaches (Bouzekri, 2015) have in common that growth has also been positively affected by education.

Skills and Qualifications

Skills (Taylor, 2012) affect people's lives and economic and social development in many ways. The globalization and economic liberalization in recent years has prompted governments in developed and developing countries alike to prioritize skills development as a key for economic competitiveness and growth. Governments recognized the fact that maintaining skills through out each individual's life cycle is another key challenge as it requires setting up high-quality, easily accessible opportunities for adult learning – both on skills and re-training.

The research study of Dravek, J. et al (2017) stressed that the development of required skills of the employees is mostly provided by two key elements: personality training and education. Personality training can be understood as the process of creating the personality of an individual. Education is a form of development and shaping of the personality of an individual.

There are many skills that hiring managers identify as important to success in a variety of business settings, including small and large firms, non-profit organizations, and public service. Robbins, S.P. et al (2019) emphasized these skills, such as, critical thinking, communication, collaboration, knowledge application and analysis, and social responsibility. All five of these skills are

critical to success in business and in careers and to be effective in their jobs.

The future (Dravek, J. et al, 2017) will certainly belong to those companies which pay most attention to effective management of human resources, which, in terms of time factor is an important prerequisite for growth and competitiveness of a company.

However, to ensure that firms make the best use of the skills available, both developed and developing countries need to put in place framework policies that help create better skilled jobs in the formal sectors.

Training and Development

Training is basically essential for improving and acquiring new skills. The result is that the efficiency of the employees and the knowledge held by the employees causes a growth in human capital (Saif, 2018). The research study by Salah, M. R. (2016) likewise stated that the success or failure of modern business organizations depends on the quality of their human resources. Well trained and highly developed employees are considered as corner stone for such success. The study concluded that training and development have important impact on employee performance and productivity. By analogy therefore the competence of the employees is of the utmost importance for the efficient use of human resources, hence it must be enhanced and improved. According to Pasban, et al (2016), training is a sort of investment in human capital, which supports the skilled and trained workers.

Tahir, N. et al (2014) pointed out that training and development is one of the

imperatives of human capital development as it can improve performance at individual and organizational levels. Strategically, organizational learning, which makes use of training and development as one of the several responses, deals with the acquisition of understanding, know-how, techniques and practices. Thereby, training and development is beneficial not just for the organization as it improves productivity itself but also to the individual employees.

Farooq and Aslam (2011) did an empirical research to examine the impact of training and development. This was cited in the study of Javed (2014) which highlighted the improved quality of task performance and organizational productivity as an impact of training and development.

The study of Rosli and Mahmood (2013) concluded that there is a clear evidence that training of both employees and entrepreneurs had a strong interactions with innovation, which in turn positively impacts firm performance. Although training involves high costs and risks, organizations have no choice, but to invest in this critical area of human and entrepreneurial capital, so that their performance could be improved, which in turn would consolidate their competitive position in the marketplace.

But how can an organization increase human capital? Why are some organizations going faster than others? To answer these questions, we must broaden our understanding of human capital. There is no doubt that human capital is the fundamental source of economic growth. It is a source of both increased productivity and technological advancement. In fact, the major difference

between two organizations is the rate of progress in human capital.

There were studies in the past that showed human capital can be increased through formal education. The same can also be increased through training and acquiring work experience.

Organizational Commitment

Commitment is a linkage that individuals may develop towards multiple aspects of their work environment. It can be enacted either as an attitude, behaviours (for behavioural intentions), or as a binding force. Commitment can be analysed in relation to group or teamwork, work itself, career, among others (Scheible and Bastos, 2013).

Robbins, S. P. et al (2019) defines organizational commitment as the degree to which an employee identifies with a particular organization and its goals and wishes to maintain membership in the organization. An employees with strong organizational commitment identifies with his or her organization and its goals and wishes to remain a member. Emotional attachment to an organization and belief in its values is the golden standard for employee commitment.

Furthermore, organizational commitment refers to an individual's feelings about the organization as a whole. It is the psychological bond that an employee has with an organization and has been found to be related to goal and value congruence, behavioral investments in the organization, and likelihood to stay with the organization.

Employee commitment is the degree to which an employee identifies with the

organization and wants to continue actively participating in it. In the research study of Beheshtifar and Safarian (2013) employee commitment is defined as one of the important consequences of human resource maintenance. Employee maintenance has wider dimensions than wage, welfare and safety plans in workplace.

Let us always bear this words in mind that employees who are committed will be less likely to engage in work withdrawal even if they are dissatisfied because they feel that they should work hard out of sense of loyalty and attachment.

CONCLUSION

The role of human capital in organizational development and economic growth can't be undermined as it is among the most important reasons why organizations and countries are able to achieve its business and economics goals. For countries and business to grow rapidly, they must look into the quality of human capital they employ making sure that human resources possess the right qualities and qualifications organizations

need to help them in their business goals. Education is among the crucial key factors necessary for human capital development. It begins with the basic education up to the higher level of education that will equip the human resources with the needed skills to perform their duties and help organizations in their capacity as employees. With many challenges and developments happening in the global community, employees must be trained and re-trained so that they are abreast with the latest skills that shaped how businesses operate today. These are very important pre-requisites so that business organization can compete and overcome economic and business challenges. Organizations at the same time must commit to the development of their human resources by providing all the needed training and development so that employees can be at better position to address issues and challenges in their workplace. Many studies have already proven the effect of training and skills development of human resources and the success of organizations if employees are properly taken cared of.

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