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Human Capital Investment and Organizational Performance: A Theoretical Review

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Abstract:
Skill and capacities present in the workforce, if put to productive use, can be vital determinants of a nation's long-term profit gains. Building employees' competence through skill acquisition is an important yardstick in measuring an organization's performance. Keeping into account the importance of investing in human resources in an organization, the current study tries to review existing literature and research work on human capital and organization investment with a main focus on human capital accumulation, human capital depletion and human capital drivers. The study reviewed existing literature that shows the relationship between human capital and organization investment, which shows either a firm performing well or projecting poor performance. The review has shown that human capital accumulation, human capital depletion and human capital drivers have a positive influence on the performance of an organization when proper investment strategies are adopted. The findings also show that organizations that invest in developing their human capital project growth, positive performance and survival of firms in very competitive environments.

Keywords: *Human capital investment, human capital drivers, human capital depletion, human capital accumulation, strategic human capital management, resource-based view*

1. Introduction

Odhong et al. (2013), citing Bontis et al. (1999) and Baron and Armstrong (2007), describe human capital as the knowledge, skills, and experience that contribute to an organization's unique character. Theodore Schultz first proposed the phrase Human Capital (HC) in the early 1990s to illustrate the benefits of investing in education at the national level (Afiouni, 2013), as mentioned in Odhong and Were (2013). Focus on human capital in businesses represents the concept that market value relies less on material resources, instead focusing on intangible ones, notably human resources (Kulvisaechana,2006). Human Capital Management involves gathering, analyzing, and sharing information to support corporate and front-line operational, investment, and strategy decisions (Baron et al., 2007; Odhong et al., 2013). Monitoring the performance of HCM drivers helps identify an organization's strengths and weaknesses in human capital management Odhong et al., (2013). Improvements or declines in HCM practices can directly correlate with organizational success (Bassi et al., 2007).

The emphasis on human capital as an edge in competition has increased the importance of understanding and winning talents (Gardner, 2005). Moreover, this has resulted in a greater convergence of crucial human resources management and strategic management. The resource-based perspective (RBV) is typically used to address HRM (Barney, 1991; Wernerfelt, 1984). The RBV has caused internal elements like the build-up of human capital to replace external ones like industry position in the literature on strategic management. (Hoskisson et al., 1999). According to Coff (1997), human resources are valued and non-substitutable due to their scarcity, specialized nature, and tacit knowledge.

The influence of HR investment on organizational performance is explained by the resource-based view by numerous authors in the SHRM literature (Zatzick & Iverson, 2006; Jiang et al., 2012; Lado & Wilson, 1994; Shaw, Park, & Kim, 2013). According to this research, corporations who invest in human resource management systems create an array of internal assets that are valued, distinct, special, and non-replaceable, allowing them to establish long-term competitive advantages. Studies conducted by Miller and Lee (2001) and Lee and Miller (1999) suggest that HR investments can foster a culture of devotion and loyalty among employees, leading to increased interconnections and function specialization, resulting in a company-specific workforce. Investing in human resources can lead to increased employee loyalty, devotion, and initiative and the development of excellent informal connections (Lee & Miller, 1999; Kim & Roh, 2016). This can boost profitability.

HRM techniques are employed as instruments in high-investment organizations to develop an employee base that provides a competitive edge (Shaw & Delery, 2001). Conversely, low-investment companies' human resource management strategies do not accomplish much in developing long-term human capital; the company gives employees little possibilities and views labour as a commodity or ability to create a persistent competitive advantage. Instead, such organizations seek advantage through advanced technology, finance, or tangible resources (Shaw & Delery, 2001). The body of research unequivocally demonstrates that investments in HRM and the creation of human capital can significantly and favourably impact organizational effectiveness (e.g., Hitt et al., 2001). Speaking of the findings of their extensive analytical examination of the literature on performance and human capital, Crook et al. (2011) proposed that a crucial area for strategy research to focus on is figuring out when and under what circumstances "human capital begins to diminish and lose its value."

Lopez-Acevedo & Tan (2002) and Robert & Winston (2005) examined the impact of human capital development programmes on company performance in Mexico and Taiwan, respectively. Mottaleb and Sonobe (2011), Sonobe, Akoten, and Otsuka (2009), and Sonobe, Nam, and Otsuka (2009) demonstrated a robust correlation between senior management training and experience and business growth in the knitting (Vietnam, Bangladesh) and shoe (Ethiopia) industries. Sonobe et al. (2009) discovered compelling data supporting the impact of education and training, Considering the magnitude of the company in terms of development and commercial expansion. According to Sonobe and Otsuka (2018), the development of industrial clusters in economically disadvantaged developing countries in Sub-Saharan Africa and Asia requires human capital. Mhede, Higuchi, and Sonobe (2019) found that management education had a major medium-term impact on Tanzanian companies' efficiency.

The fundamental idea behind strategic HRD is that funding HRD procedures such as Education, coaching, talent progression, leadership development, and Processes of organizational learning will increase the worth, rarity, non-replaceability, and inimitable nature of the human resources of the company (Garavan & Chami-Malaeb, 2013). Even if the evidence on investing in human capital is fairly compelling in that it reveals a significant and positive influence on organizational performance (Hitt, Bierman, Shimizu, & Kochhar, 2001; Crook et al., 2011; Delery & Shaw, 2001), It notably lacks in demonstrating the effects of differences in human capital investments.

Human capital investments are expenditures incurred by a company to attract, develop, and inspire personnel with a prospect of future yields (Wright & Bhattacharya, 2005; Dearden, Meghir Blundell & Sianesi, 1999). Pay and benefits for employees attract, keep and inspire employees while training and other developmental initiatives improve and enable human capital retention. For example, training and development programmes often have high initial and ongoing expenses; nevertheless, they can improve labour flexibility, enabling businesses to handle the cycles of business and downturns in the economy more effectively (Garavan, 2012; Bhattacharya & Wright, 2005).

Organizations invest in methods for instruction and growth to gain financial rewards as part of strategic human resource development (Garavan et al., 2001). It is also critical to stay ahead of the curve in the ever-changing environment in which many businesses operate (Shafer & Dyer, 2002). Intense job-based training is one of the strategic HRD programmes that will boost task performance, encourage functional flexibility, and create a workforce that can learn continuously. (Garavan, Carbery, & Rock, 2012; Batt, 2002).

HRD strategies in action benefit organizations because they improve confidence and adaptability of skills in acquiring and using fresh skills. They enable workers to become aware of novel approaches to completing tasks, which leads to greater flexibility in behaviour and attitudes. Strategic HRD initiatives may also improve human capital by encouraging open communication, facilitating the growth of social interactions, increasing society's diversity and interconnectedness, and resource co-specialization among workers (Shaw et al., 2013; Ployhart et al., 2006).

Many companies in the US and Europe modify their personnel numbers by employing "hire and fire" techniques, flexible hours, and reorganizing work groups by delaying and eliminating non-core tasks (Cappelli & Neumark, 2004). Firms can use tactical HRD methods to boost output and extract more from current workers (Crook et al., 2011). The techniques include upgrading, versatility, and improving behavioural adaptability (Wright & Snell, 1998; Bhattacharya; Gibson & Doty, 2005). Tactical human resource development methods are utilized to expand employees' responsibilities, increase their ability to make independent decisions and embrace a broader organizational vision.

Researchers in strategic management and HRM have long understood that workers are crucial to creating and preserving a business's competitive advantage over competitors (Delery & Shaw, 2001). According to Crook et al. (2011), current meta-analytic research supports these claims by proving the existence of significant, practically applicable linkages linking the development of human resources and several aspects of company effectiveness. When human resource build-ups are robust, an entity is more likely to benefit from company-specific abilities, expertise, and competencies to maintain its competitive edge. Furthermore, it has been noted by Coff (1997) and Hitt et al. (2001), among others, that these kinds of build-ups of human capital may be most useful when they are kept in the locations where they were generated.

As stated by Cedar Crestone (2012), organizations using labour force administration solutions have a 33% higher growth rate in operational revenue. The achievement of the company is, therefore, strongly reliant on drivers of human capital management such as leading techniques, worker productivity, worker productivity, ability to learn, workforce-optimized performance, and knowledge availability. Kenya's growth in GDP was moderate, rising from 4.6% in 2012 to 4.7% in 2013. The Gross Domestic Product (GDP) share of the financial sector has remained unpredictable. For instance, in 2010, the GDP contribution was 5.6%; in 2011, it increased to 6.3%; and in 2012, it decreased to 5.2%. In addition, the industry saw a slight gain in 2012 of 6.5% as opposed to 7.8% in 2011 (Republic of Kenya, 2013).

2. Objectives of the Literature Review

This literature on organizational investment has been undertaken with the following objectives:

- To investigate the relationship between human capital accumulation and organizational performance.

- To establish the relationship between human capital depletion and organization performance.
- To find out the relationship between human capital drivers and organization performance.

3. Theories of Human Capital Investment and Organizational Performance

3.1. Performance

The desire to invest in rare, valuable, imperfectly imitable and non-substitutable resources that would lead to the growth and survival of organizations was supported by the resource-based view and human capital theory.

3.2. Resource-Based Perspective

Wernerfelt (1984) established the resource-based perspective (RBV) as a cohesive theory. According to the notion, organizational resources and competencies that are unique, valuable, irreplaceable, and insufficiently comparable serve as the foundation for a company's prolonged Competitive edge. RBV proposes that organizations can preserve a competitive edge by encouraging the evolution of firm-specific expertise that builds complex social relationships rooted in a firm's cultural and historical past and generate tacit organizational knowledge (Odhong et al., 2013). This theory regards human capital as the most important, non-substitutable, and imperfectly comparable resource that a company can successfully use to increase organizational efficiency and competitiveness.

The perspective is relevant to the study in that human capital is the most valuable organizational resource due to its infrequent, beneficial, irreplaceable, and emulatable nature. Organizations should, therefore, invest in human capital since it leads to growth, good performance, and survival in a very competitive environment.

3.3. Human Capital Theory

The origins of the concept of human capital may be traced back to the founding of conventional economics in 1776, which later evolved into the theory of science. Adam Smith (1776) pioneered the theory of investing in human capital, stating in The Wealth of Nations that variations in the working styles of persons with varied degrees of education and training resulted in disparities in the wages required to cover the expenses of attaining such abilities. Economists such as Elliot (1991) developed the concept of human resource capital. He evaluates human capital in terms of its worth rather than numbers. (Armstrong and Baron, 2007).

After turning that idea into a concept, Schultz (1961) recognized the workforce as one of the most important components of national prosperity in the contemporary economy (Dae-bong 2009). The concept states that a person's educational background influences the person's potential for earning. According to human capital aspects, organizations' competitive advantage is derived from their workforce's key competencies, abilities, expertise, and skills. It concentrates on funding, human resource development, compensation strategies, and procedures. Human capital concept defines learning is considered a financial commitment since it has the potential to generate both individual and society benefits. Human capital specialists believe that educational achievement and potential for income are related. Therefore, the more education a person has, the more they can earn, and the skills, information, and talents that school gives can be translated to the workplace in terms of production (Dae-bong, 2009).

The theory is relevant to the study in that human capital should be considered a vital component in building the economy of a nation. Key considerations are skills, abilities, experience and knowledge possessed by the workforce. The more competent employees are to an organization, the more valuable they are in regard to their contribution towards its success.

4. Methodology

The study reviewed existing theoretical and empirical literature. The source of the secondary data consists of books and various research journals.

5. Findings

5.1. Human Capital Accumulation and Organizational Performance

Overall, a workforce with high performance should have accumulated the abilities, skills, and expertise found in low staff turnover situations, in part because rivals cannot simply and quickly imitate the capital inventory (MacKenzie, 2011; Van Iddekinge, Ployhart and Ployhart et al., 2009). For rivals, 'trying to quickly build human capital is unlikely to reproduce the same value it has for units in which the capital has been established for a long time' (Ployhart et al., 2009: 1000) due to the shortcomings in time reduction (Cool & Dierickx, 1989). Price (1977: 119) claimed that when an organization experiences significant losses in human capital, its employees become disoriented from completing tasks and become preoccupied with Lower-quality human capital which is regularly replaced. According to Delery, Gupta, and Shaw (2005: 52), "When the workforce is constantly substituted (for example, the turnover rate is 100 percent), there is a marginal rise in voluntary turnovers (such as to 110 percent) which are equally less detrimental in terms of safety and efficiency than increases at lower average levels of turnover (e.g., from 10 to 20 percent)."

HR resources minimize job loss by reducing the attraction to alternative opportunities in the outside job market, thus leading to the conservation of valuable labour (Shaw et al., 1998; 2009). When a company makes investments in human resource strategies such as training, favorable conditions for work (e.g., labor security), and comparatively high payment, a trusting interaction between employees and the organization develops, which is awarded by workers' mutual dedication in the form of increased labour productivity (Lee and Miller1999; Lado and Wilson, 1994; Combs et al., 2006).

The idea that organizations can maintain their competitive edge by accumulating high-quality human resources is at the center of human resource development (Todd, Combs, Crook, Woehr, & Ketchen, 2011; Holton & Kuchinke, 2003 Yamkovenko, 2008;). The introduction of strategic management as part of HRD (Garavan, 2007) has led to greater incorporation of strategic management and HRD, particularly through the conceptual framework of the Resource-driven approach. (RDA). The advent of the resource-centered perspective in the literature has resulted in a shift in attention towards perceiving people resources as highly valuable, uncommon, and non-substitutable (Kim & Park, Shaw, 2013).

An investigation into the link between human capital and population increase in R&D-based Models of Economic Growth by Strulik (2005) predicted that economic growth depends positively on the rate of human capital accumulation and positively or negatively on population growth and in particular, long-run growth which is compatible with a stable population.

6. Human Capital Depletion and Organizational Performance

Delery, Gupta, and Shaw (2005) found support for this effect in two intra-industry studies; they observed that individual turnover and employee performance measures (productivity and accident rates) had a substantial negative correlation at the beginning, but this correlation decreased as voluntary turnover rates grew. Some recent studies have identified strong negative linear relationships between human capital expenditures (turnover rates) and workforce outcomes. (e.g., Kacmar et al., 2006). The most severe of these losses should occur as worker turnover rates increase from very low to more normal levels (Lockhart Shaw, Johnson & Duffy, 2005).

Once accrued human capital has been exhausted, personnel must be substituted, which costs organizations not just income but also initiates a 'period of dynamic adjustment costs while the best uses of the human capital are discovered and tailored to the needs of the new environment' (Lepak & Shaw, 2008; Hatch & Dyer, 2004). An organization should have enough manpower to ensure a continuous production process and avoid a work stoppage, which can lead to losses. Employees have an important role in building and preserving a company's competitive advantage over rivals, according to strategic management and HRM academics (Shaw & Delery, 2001). According to these considerations, current meta-analytic research indicates robust and significant beneficial associations between human capital development and metrics of corporate success. (Crook et al., 2011). For competitors, 'trying to quickly build human capital is unlikely to reproduce the same value it has for units in which the capital has been established for a long time' (Ployhart et al., 2009: 1000).

A study by Kiwook and Deborah (2012) on higher performer turnover and firm performance: the moderating role of human capital investment and firm reputation showed a negative impact of higher performer turnover on firm performance, which was strongest for reputable firms that invest less in human capital.

7. Human Capital Drivers and Organizational Performance

The administration of human capital deals with gathering, analyzing, and disseminating information that discloses the path of value-added strategic investments and functioning management of individual choices at the corporate and frontline executive levels (Baron et al., 2007; cited in Odhong et al., 2013). Evaluating the effectiveness of HCM drivers can help organizations analyze their abilities and shortcomings in human capital management, and in general, increases or decreases in organizational effectiveness can be closely linked to gains or decreases in HCM principles (Bassi et al., 2007). HCM initiatives act as catalysts for successful HR administration. The HCM drivers specify how the procedure operates to accomplish various results. Studies showed that approaches will change between businesses based on their plans. (Baron *et al.*, 2007).

Training allows individuals to broaden their abilities and create additional opportunities for advancement and personal progress, improving their passion at work (White & Bryson, 2013) and reflecting the organization's commitment to its staff. Additionally, in an era characterized by business downsizing and mergers, job stability is an essential element of any HR investment plan (Shaw et al., 1998). Employment security improves when the proportion of permanent staff members surpasses the contingent workforce (Batt, 2002). When businesses fail to provide stable employment, employees deal with job insecurity, which acts as a negative stressor, creating unfavorable reactions such as decreased enthusiasm and dedication and greater resignation and withdrawal behaviors (König & Staufenbiel, 2010). Permanent engagements for employees have been related to favorable outcomes, including job fulfillment and wellness (Guest, 2004).

Research on the impact of managing human capital in improving retention and participation among top talent in organizations by Hassan (2016) revealed that some human capital management practices, such as equitable reward packages, continuous training and development programs, and fair performance appraisal, significantly contributed to employee retention. A study on the effects of human capital management drivers on organizational performance in Kenya by Odhong, Were, and Amolo (2016) showed that management of human capital drivers can be used to benchmark company capabilities, identify individual funding administration weaknesses as well as strengths and link enhancements in specific human capital management techniques to improved performance in the organization and an ongoing competitive edge.

According to a 2010 survey conducted by CFO Research Services, human capital concerns are a major contributor to unsuccessful businesses and subsequent financial problems. The study's findings indicated that HR provides distinctive advantages and direction, notably in terms of managing and valuing human capital resources, which may greatly contribute to effective pre- and post-transformational activities (Hewitt, 2010).

Nzuve and Bundi (2012) conducted research to examine the connection between human capital management methods and the efficiency of commercial banks in Kenya. The study shows that human capital management strategies have a beneficial impact on effectiveness, as assessed by increased turnover and return on investments.

8. Conclusion and Recommendations

8.1. Conclusion

Human capital is the most vital asset for any organization, and therefore, organizations should invest in equipping the workforce with the necessary skills and knowledge. The purpose of this literature review was to establish human capital investment and its positive reflection on organisational performance. As shown in the review, organizations are likely to project positive performance when they invest in their personnel. The findings reveal that human capital accumulation aids organizations in having enough workforce with the necessary capacities to ensure continued production. The studies also revealed that human capital retention aids an organization in avoiding the depletion of this important asset. Human capital drivers, including proper leadership practices, knowledge accessibility, learning capabilities, and employee engagement, if well administered, reflected a positive implication on the growth and performance of organizations.

The review was done only on human capital investment and organizational performance. Similar studies should be done on human capital development, human capital flight, and financing human capital investment, among others. Empirical research on the role of human capital investment in critical sectors of the economy, such as health care and education, should be done with the aim of establishing strategies to enhance proper skill and knowledge acquisition.

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