
Human Capital Development: Investing in People as a Winning Business Strategy

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Abstract

A winning business strategy requires a well-equipped, informed and engaged operations team. As such, this paper on Human Capital Development discusses the outcome of a study on the ability to expand or grow the skills of the human resources of an organisation as a competitive strategy in the ever increasing competitive business environment of today.

The study aimed at determining how to maximize learning within an existing organisation without necessarily bursting the budget and yet getting a rewarding result. There is hope that this will make a significant difference between a good organisation and a great one since people are an asset to every aspect of a business.

Key words: *Human Capital Development, Business and Winning Strategy.*

1. Introduction

In modern day business environment an organization faces a high level of competition. As such organizations must strive to get things right through appropriate strategies in managing their available resources (capital) so as to achieve preset goals. In contemporary economics according to Olaitan (2013), capital is no longer used to describe only physical resources of an organization like plants, tools, buildings, and vehicles that are used in the production process. Modern Economists now view capital to include human or intellectual capital which is the investment in skills and education. Considering human being therefore as an integral part of production input, it is not an over statement to assert that the most important asset of an organization anywhere in the world is its human resources.

This is because while systems and processes do contribute to the realization of an organizations goals and objectives, the real achievements would all be made possible by the people (human resources) since they are the ones to do the work, contribute the ideas gathered from training and experience and the thought “fuel” that will make organizational activities successful.

In recent decades, economists have devoted a great deal of effort to developing and to

quantifying the concept of human capital, and have studied it through the concept of investment in its formation, in such activities as education (academic study or on-the-job training), migration and medical care (Becker, 1993). It is a real fact that the acquisition of utilitarian skills, talents, knowledge, and the maintenance of the acquirer during his/her study or apprenticeship always cost a real expenses, which is an investment in the person. Hence, such investment is conceived to be a capital.

Considering the preceding description of human capital one conceives human capital development as the totality of activities geared towards enhancing the quality of the human efforts and its productivity. Schultz (1995) argued that investment in human capital can overcome many of the characteristics of the labour force that act as impediments to greater productivity, such as poor health; illiteracy, un-receptiveness to new knowledge/ideals, fear of change, and immobility among other things. As such, the importance of people and the value that investing in them brings to a business can never be over scored given the present day highly competitive business environment where every organization contend for survival. Human capital development has been described by Harbinson and Mongers (1964) as the process of increasing the knowledge, skills and the capacities of all people in a society. As for Essien (2000), it is a well thought-out plan and action aimed at the developing and grooming of human beings so as to present them fit and qualified to be productive to them, in particular, and to the entire society in general. Ovenseri-Ogbomo (2006) asserted that for any meaningful development to take place anywhere, it must start with the development of the human beings. This is because he considered human capital to be the engine of growth, agent of economic transformation, a catalyst for social re-engineering, and a base for economic take-off.

As state earlier, this study is aimed at determine how to maximize learning within an existing organization without necessarily bursting the budget and yet getting a rewarding result in the ever increasing competitive business environment of today.

2. Statement of the Problem

The problem of this study centers on the need to expand or grow the skills of the human capital of an organization as a competitive strategy in achieving sustainable development of a business organization in the face of competition. As a matter of fact, the extent of success achievable by any organization be it profit or non-profit oriented depends on the ability of its human resources to utilize other resources (factors of production) such as capital, equipment and land for the achievement of organization objectives. Investment in intellectual capital (human capital) therefore must not be treated merely as an expense in the profit and loss account of an organization but rather as a capital expenditure which repays with huge gains or profit over time.

However, this concept seems to be a new one in Nigeria since not all organizations have recognized the important role of human capital development in organizational performance and development. Even for those in the educational sector that seems to understand the value of investing in people, many of them still give poor attention (if any) to human capital development. This is what made this study very necessary to sensitize business operators (organisations) about the need to give adequate attention to and make sufficient financial provisions for human capital development towards improved organizational performance and growth.

3. Objectives of the Study

The primary objective of this study is to expose the role of human capital development as a winning strategy for sustainable development of business organizations with particular reference to private Industry in Nigeria. However, the study in an attempt to achieve this will also examine

- i.** The concept of human resource management
- ii.** The concept of human capital and its components
- iii.** The concept of human capital development.
- iv.** The effect of training and development on organizational performance.
- v.** The need for human capital development in Nigerian business organizations.

4. Significance of the Study

This study because of the importance of human capital as a significant component of the factors of production employed by all organizations will be of huge benefit to all business stakeholders in Nigeria in particular. These include among others, the management teams, operations team and business policy makers in organizations.

Besides, the study will also be very useful to researchers in the field of management sciences as well as human resources professional organizations, human resources analysts and trade unions.

5. Theoretical Framework

The theoretical framework of this study helps to set the theoretical base for the research and also let the current study into perspective to show the state of the art where the contributions of the current study findings can be clearly identified.

Human Resources Management (HRM)

This is a branch of a whole general management which can be applied both in management and operative functions performed in organization. The term “Human Resource Management” has largely replaced the term “Personnel Management” as a description of the process involved in managing people in organizations.

According to Armstrong (2011), HRM is a strategic and coherent approach to the management of an organization’s most valued assets- the people working there who individually and collectively contribute to the achievement of its objectives.

An important objective of every organization according to Davar (2009) is survival which implies the acceptance of the “growth” objective also. In his words, the objectives of HRM can be described as follows.

- i.** To attract and secure appropriate people capable of performing effectively the organization’s specific tasks,
- ii.** To utilize the human resources effectively; and
- iii.** To generate maximum individual development of the people within the organization.

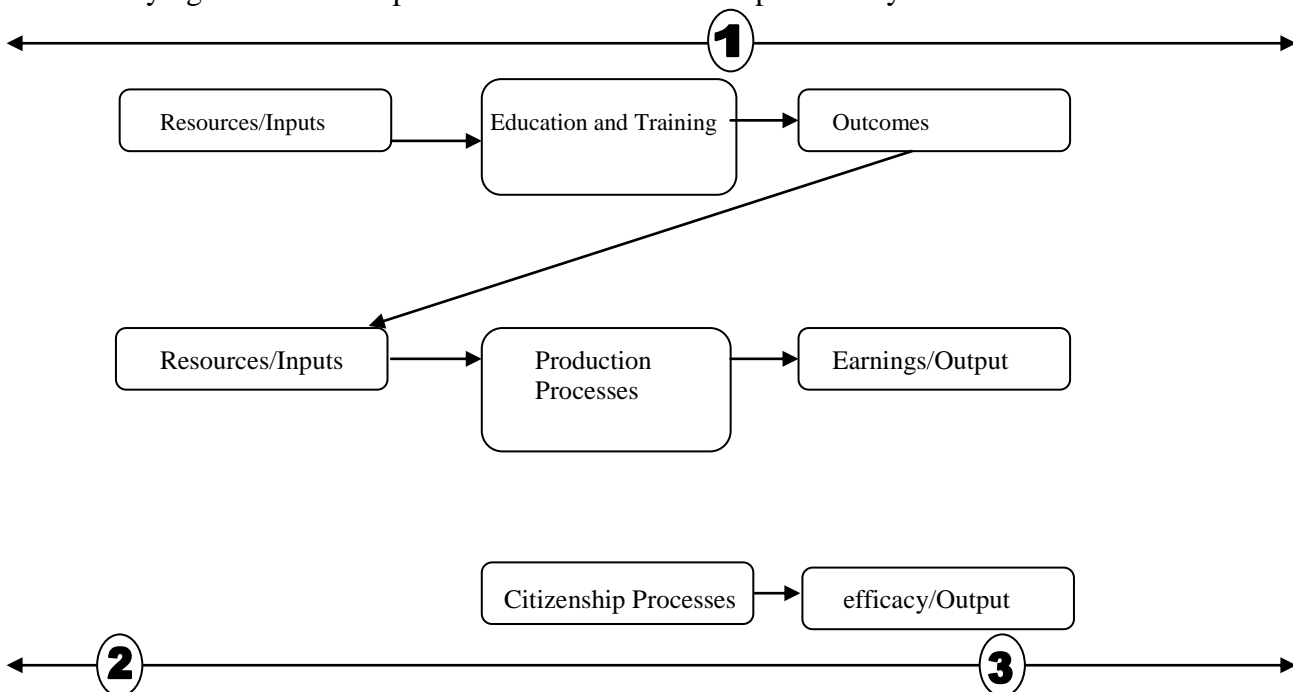
Obtaining capable people and ensuring that they are available when required, requires anticipation of future job openings within the organisation. Even at the time of the initial recruitment, it is necessary to visualize the development needed in such individuals in the light of future higher positions which may have to be filled by these recruits.

The Human Capital Theory

Going by the assertion of Schultz (1993), the theory of human capital is rooted from the field of macroeconomic development theory. This domain was illustrated by Becker (1993) in his

classic book, *Human Capital: A Theoretical and Empirical Analysis* with special reference to education. Becker (Ibid) argues that there are different kinds of capitals that include schooling, computer training, and expenditures on workshops, conferences and medical care. These expenditures are not simply costs but investment with valuable returns that can be estimated.

The classical theory focuses on the exploitation of labour by capital. However, unlike the meaning traditionally associated with the term labour, human capital refers to the knowledge, expertise, and skill that one accumulates through education and training. Becker (ibid) distinguished firm-specific human capital from general-purpose human capital. Firm-specific human capital includes expertise obtained through education and training in management information systems, accounting procedures, or other expertise specific to a particular firm. But general-purpose human capital is knowledge gained through education and training in areas of value to a variety of firms such as generic skills in human resource development. Swanson (2001), presented the key relations in human capital theory and the assumptions underlying the relationships in the model of human capital theory shown below.



A model of Human Capital Theory (Swanson, 2011)

Relationship 1 represents the concept of production function as applied to education and training with the key assumption that investment in education and training results in increased learning.

Relationship 2 represents the human capital relationship with learning and increased productivity with the key assumption that increase in learning does, in fact result in greater productivity.

Relationship 3 represents the human capital relationship between increased wages and business earnings with the key assumption that greater productivity does, in fact, result in higher wages for individuals and earnings for business.

One could safely conclude that human capital does contribute to the organizational advantages and profits. The human capital theory is an important agent for boosting firm performance and thus becomes an element in firm performance.

Human Capital and Organization's Performance

In order to sustain competitiveness in an organization, human capital becomes an instrument used to increase productivity. This is because human capital is a key element in improving a firm asset and employees in order to increase productivity as well as sustain competitive advantage (Schultz, 1993). This relates to training, education and other professional initiatives in order to increase the level of knowledge, skills, abilities, values, and social assets of an employee which leads to employees' satisfaction, and performance as well as the firm's performance eventually.

The constantly changing business environment requires organizations to strive for superior competitive advantage for their long term sustainability. While human capital refer to "the knowledge, skills, competencies, and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being" (Organization for Economic Cooperation and Development – OECD 2001:18), Organization's performance tend to benchmark managerial accounting indicators against the financial measures in six dimensions via workers compensation, quality, shrinkage, productivity, operating expenses and profitability (Wright et al, 2005).

In any case, it is fitting to point out that the work force's lack of training is related to low competitiveness (Green, 1993) while a greater human capital stock is associated with greater productivity and higher salaries (Mincer, 1997) which is linked to the longevity of companies (Bates, 1990) and greater tendency to business and economic growth (Goetz and Hu, 1996).

Human Capital Development

Human capital development at the organizational level is usually human resource development. Human resource development as described by Walton (1999) is involving, introducing, eliminating, modifying, directing and guiding processes in such a way that all individuals and teams are equipped with the skills, knowledge and competences they require to undertake current and future tasks required by the organization.

The elements of the human resource development process include learning, education, development and training (Armstrong, 2011). According to CIPD (2001), the organizational process of developing people involves the integration of learning and development processes, operations and relationships. Its most powerful outcomes for the business are to do with enhanced organizational effectiveness and sustainability. For the individual, they are to do with enhanced personal competence, adaptability and employability. It is therefore a critical business process in for-profit and not-for-profit organizations.

The tools and methods for human capital development differ in organizations, and it is largely determined by the objectives of organizations, the idiosyncrasy of management staff, the organizational policy, as well as the organizational environment among others. However, some methods of human capital development include Orientation, on-the-job training (a process which involves coaching, job rotation, in house training and in service training), work group method, vestibule training method, and apprenticeship method.

Human Capital Development in Nigeria

Nigeria since her independence in 1960 has not shown much commitment towards the human capital development (education and training of her citizens). According to Ojo (1986), up until the 1960s, little attention was paid to nationally planned manpower development in Nigeria, despite its importance in the overall national development. As a result, the nation has

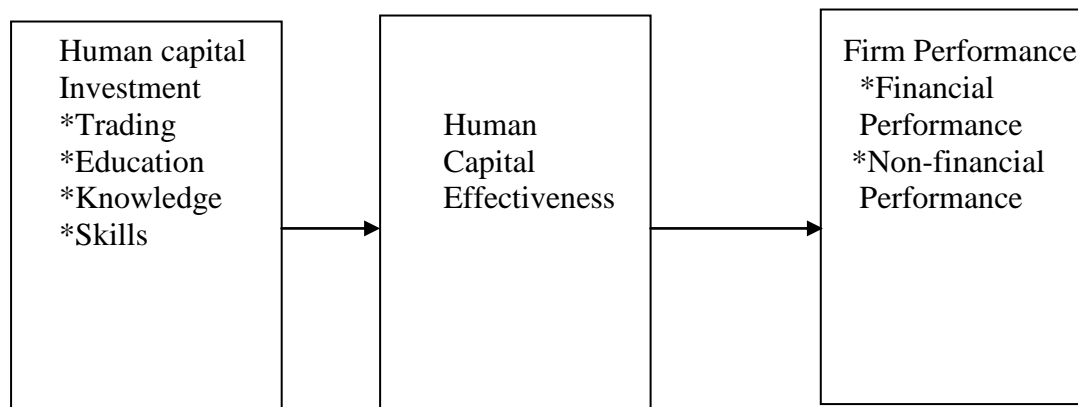
been suffering from an acute shortage of well-trained manpower.

To Ojo (Ibid), the pattern of manpower development in Nigeria has failed to achieve desirable level of manpower mixes, not only in terms of categories, but also in terms of quality. Similar views were expressed by Gbosi (2003), when he posited that Nigeria's educational structure depicts the dominance of formal education and places less emphasis on vocational and other training that would impact skills in Nigeria. As a result, the nation's institutions of higher learning turnout annually thousands of liberal arts graduates who are not in high demand in the nation's labour market and beyond.

Not quite long ago, experts on education in a seminar divulged that Nigeria is presently having the highest number of illiterates in the world. The United Nations Education, Scientific and Cultural Organization (UNESCO) Director and country representative at the seminar disclosed that "these are about 60 million adults in Nigeria, 85 percent of them under the age of 35 years, who can neither read nor write" (The Guardian, 2007). According to the report of the United Nations Development Programme (2009), most developing countries in Africa and Asia are ahead of Nigeria in terms of Human Development Index (NDI).

6. Conceptual Model

Going by the objective of the study, a model showing the relationship between human capital and organizational performance could be developed. Based on previous discussion, it is postulated that investment in human capital leads to greater organizational performance which can be viewed from two perspectives; financial performance and non-financial performance. Financial performance includes productivity, market share, and profitability, while non-financial performance includes customer's satisfaction, innovation, workflow improvement and skills development. The foregoing is presented in the conceptual below.



Conceptual Model linking Human Capital Investment, Human Capital Effectiveness and firm performances (Maram Marimuthus et al 2009)

7. Methodology

The study adopted a descriptive survey method which enabled the researchers to gather Secondary data from available extensive literatures in journals, textbooks, magazines, research projects and websites on the internet. Also, Primary data on the human resources development activities of selected private institutions in South West Nigeria was employed. 40 randomly selected employees of the selected institutions namely Covenant University, Otta, Ogun State, Bowen University, and Wolex Polytechnic, both in Iwo, Osun State were interviewed to source the primary data that will be useful in assessing the relationship

between the human capital development practices in the institutions and institutional performances.

8. Discussion of Findings

The findings of this study established the fact that human capital requires every necessary attention in order to achieve organizational/institutional objectives. It confirms that the success of any organization in a competitive business environment depends on the ability of its human resources to effectively and efficiently utilize other organizational resources such as capital, equipment and land for the optimal achievement of organizational (corporate) objectives.

From the primary information gathered from the interviewed staff members of the selected private institutions, it could be inferred that much effort is still required to increase investment in people (human capital) in the private sector of our nation Nigeria. Although, the interviews revealed that Covenant University has made considerable efforts in the last few years to maximize learning within its system through obligatory in house and in service sponsoring training of its staff members for higher qualifications and has been getting rewarding results without necessarily bursting its annual budget. However, the situation is different in the other institutions studied which largely depend on external training opportunities with very little full sponsorship facilities.

The responses clearly affirmed that where human capital development programmes are created within an existing organization as in the case of Covenant University, training cost is usually minimized, employees are optimally utilized, huge waste of man hours involved in traveling to and from external training institutions/organizations eliminated, and organizational performance highly increased.

9. Conclusion and Recommendations

Based on the reviewed literatures on Human resource management, human capital theory, human capital development, human capital and organization's performance, human capital development in Nigeria, the conceptual model as well as the above findings of this study, the conclusion of this paper is that the private industry in Nigeria can attain significant improvement in their performance level provided concerted effort is made to invest in human capital development programmes such as formal education, on-the-job training, in-service training, participation in workshops, seminars and conferences, and job rotation among others. All these are veritable tools for enhancing and updating the knowledge, skills, and experiences of employees as a winning business strategy in today's highly competitive business environment as a result of deregulation and globalization.

In view of the great importance of capital development therefore, the following recommendations are considered relevant:

- i.** Private organizations in Nigeria should regularly evaluate their human resources in order to identify their areas of need for development.
- ii.** Private organizations in Nigeria should explore all human capital development opportunities appropriate for optimal development of their employees towards improved performance.
- iii.** The management of private organizations in Nigeria should make available, information, budget (finance), and material resources necessary for the implementation of human capital development programmes.

- iv. Approved budget for training programmes should under no circumstance be diverted to meet other organizational demands by the management.
- v. The Federal Ministry of Labour and Production should find a way of encouraging human capital development in the private industries in Nigeria through appropriate incentives.

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