

Human Capital Characteristics and Organizational Performance

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Abstract: The present research is done to examine the relation between the human capital characteristics and the organizational performance in the banks of Guilan Province. Such a way that HC was examined regarding to the 3 characteristics (experience, tenure, education) and OP regarding to financial performance indicators (Relative profitability, Return on investment, Total sales growth) and market performance indicators (Market Share, Profit ratio, Customer satisfaction). The statistical universe of Guilan province's banks and sample size consisted of 22 public and private banks that the designed questionnaire distributed in the entire statistical universe. The calculated correlation coefficient was examined for signifying in the confidence level of 95% by Pearson correlation method and it is distinguished that HC have direct relation with OP.

Key words: Human Capital, Organizational Performance, Knowledge Based Economy, Financial Performance

INTRODUCTION

The constantly changing business environment requires firms to strive for competitive advantages (Barney, 1995). Human capital is getting wider attention with increasing globalization and human capital development is one of the fundamental solutions to enter the international arena (Marimuthu *et al.*, 2009). HC refer to processes that relate to training, education and other professional initiatives in order to increase the levels of knowledge, skills, abilities, values, and social assets of an employee which will lead to the employee's satisfaction and performance, and eventually on a firm performance (Schultz, 1993).

The resource based view of the firm portends how organizational human capital may help develop a competitive advantage of an organization. According to this view, intangible resources or capabilities that are valuable, rare and difficult to imitate are sources of sustained competitive advantage of organizations (Barney, 1991; Teece *et al.*, 1997). Human capital is valuable because human resources differ in their knowledge, skills, and capabilities, and they are amenable to value-creation activities guided and coordinated by organizational strategies and managerial practices (De Saa-Perez & Garcia-Falcon, 2002).

According to Ulrich (1998) Human capital and knowledge create value-added and even competitive advantages to modern businesses. Switzer and Huang (2007) stated that there are some systematic cross-sectional differences in fund performance that can be attributed to differences in managerial human capital characteristics (Switzer & Huang, 2007). Education is important in performance (Mincer, 1973; Topel, 1991).

According to Switzer and Huang (2007) tenure with the firm and investment experience, have typically been postulated to be associated with better performance. There are numerous research studies demonstrating the impact of HC and HR management practices on performance (Ashton, 2005). Some focus on the human capital characteristic's impact on performance (Cook & Belliveau, 2004; Switzer & Huang, 2007; Seleim *et al.*, 2007; Zsidisin *et al.*, 2003; Segal *et al.*, 2010; Dimov & Shepherd, 2005).

Numerous studies have established that human capital is a key factor in explaining organizational performance (Bruderl, Preisendorfer and Ziegler, 1992; Gimeno, Folta, Cooper and Woo, 1997; Pennings *et al.*, 1998; Segal *et al.*, 2010; Seleim *et al.*, 2007; Marimuthu *et al.*, 2009; Switzer & Huang, 2007; Gates & Langevin, 2010; Molina & Ortega, 2002; Laing & Weir, 1999; Hsu, 2008; Carmeli, 2004).

As human capital is developed, human resources can improve their job performance and ultimately, organizational performance. This paper seeks to examine relationship between human capital characteristics (education, experience, tenure) and organizational performance in Banks Of Guilan Province In Iran.

2. Hypothesis Generation:

2.1. Human Capital:

Today, it is knowledge that brings forth wealth; human brains contribute to the value-added of products (Ulrich, 1998). Human capital is an intangible resource and has been viewed and defined by researchers and organizations in a number of different ways. Schultz (1961) first stated that human capital involved technology, experience, and knowledge. Human capital embraces all the skills and capabilities of the people working in an organization; it can be seen as an inventory of individual's skill and knowledge within an organization (Lynn, 2000). Human capital represents the competencies, tacit experiences and overall knowledge-based of individuals (Bontis, 1996, 1998, 1999, 2001).

Human capital is multi-faceted in its nature. Skills and competencies may be general (like the capacity to read, write and speak), or highly specific and more or less appropriate in different contexts. Firm-specific skills and knowledge are acquired through learning on the job and firm-based training. Much knowledge and skill is tacit rather than codified and documented – either because it defies codification or the task of codification has simply not been carried out. The more knowledge is tacit rather than explicit, the more difficult it is to share and communicate (OECD, 2001, p18).

Education is a explicit knowledge formally acquired in educational institutions and experience is implicit knowledge, which acquired during one's years of working in a particular domain. The link between organizational human capital and performance can be understood in the context of the resource-based view of the firm, which associates superior performance with the possession of resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991). Most of the tacit knowledge, embedded in the firm's social context that makes the yielded advantage long lasting (Spender, 1996).

Chaganti and Greene (2002) stated that there is positive relationship between education level and performance, and work experience has positive attribute to successfully operating a venture (Vesper, 1996). Rae and Carswell (2000) shows importance of learning by doing; Reuber and Fischer (1993) link development to facing successes and setbacks, which Gibb (1997) terms learning from mistakes.

In this research work we considered education as explicit knowledge and experience and tenure as implicit knowledge. According to literature knowledge is one of the important components of human capital.

2.2. Organizational Performance:

Most executives are painfully aware of the fact that there is no one magic formula for measuring business performance. A review of the literature on the subject shows a marked trend from financial ratios and tangibles to non-financial aspects and intangibles as the most important business measures (Hancott, 2005, p33).

Organizational performance is an indicator which measures how well an enterprise achieves their objectives (Venkatraman&Ramanujam, 1987; Hamon, 2003). Researchers have used many different performance measures (for an illustration, see Van der Stede *et al*, 2007). In addition, Delaney and Huselid (1996) suggest two ways to assess OP: OP and market performance. While the former is concerned with product or service quality, product or service innovation, employee attraction, employee retention, customer satisfaction, management/employee relation and employee relation; the latter is concerned with organizational marketing ability, total growth in sale, and total profitability.

Tippins and Sohi (2003) propose OP is measured on four dimensions: relative profitability, return on investment, customer retention, and total sales growth. In the present study, we focus on financial performance and market performance, and adopt these two factors for the OP dimension.

Hypothesis 1: There is a relationship between Human capital and Organizational performance.

Hypothesis 2: There is a relationship between experience and organizational performance.

Hypothesis 3: There is a relationship between tenure and organizational performance.

Hypothesis 4: There is a relationship between education and organizational performance.

Hypothesis 5: Human capital has different impact on performance of public and private banks.

3. Research Method:

3.1. Research Design and Sample:

This research was a descriptive and our sample data were obtained from 22 organizations which were equal to population size of public and private Banks in Guilan. And further in analysis we differentiate human capital's impact in both the organizations. We used structural questionnaires for measuring dependent and independent variables. In each organization top managers were asked to fill the questionnaires.

3.2. Measures:

3.2.1. Dependent Variables:

We investigated three dependent variables of human capital (Tenure, Education, and Experience) and measured them with a questionnaire.

Tenure means the number of years that an executive has held a particular position (Hogan & McPheters, 1980).

Educational qualifications such as degrees and higher degrees are likely to enhance a person’s general human capital in the labor market and thus lead to higher remuneration in subsequent years (Laing&Weir, 1999).

Experience is the demanding of job in the terms of ability, knowledge and mental development that are all acquired and assessed by skill, practice, and repetition in similar works or in relevant works to job (seyedjavadin, 2007, p72).

3.2.2. Independent Variables:

Delaney and Huselid (1996) developed a measurement of marketing performance which includes market share and profit ratio. In addition, Tippins and Sohi (2003) propose OP is measured on four dimensions: relative profitability, return on investment, customer retention, and total sales growth. Li-An Ho (2008) proposed two factors: financial performance and market performance.

Financial Performance:

Refers to the extent to which the organization performs in relative profitability, return on investment, and total sales growth.

Market Performance:

Refers to the extent to which the organization performs in market share, profit ratio, and customer satisfaction.

Since performance is measured based on respondents' perceptions, it may be biased. However, studies have shown that when objectives measures are not available, subjective measures can be good proxies (Dess & Robinson, 1984; Venkatraman & Ramanujam, 1987). We used Li-An Ho’s two factors for measuring performance.

4. Analysis and Results:

The descriptive statistics for the variables are presented in table 1. We used:

Pearson correlation analysis to test hypothesis 1 through 3, they are presented in table 2.

Pearson chi-square analysis to test hypothesis 4, it’s presented in table 3 and 4.

T-test analysis to test hypothesis 5, it’s presented in table 5 and 6.

Table 1: Descriptive statistics

	N	Std.Deviation	Variance
Education*			
Senior high school	4	1.041	1.02036
Associate Degree	2		
Bachelor	11		
Master and PHD	5		
Organizational Performance	22	13.394	3.65977
Human capital	22	2.479	1.57359
Experience	22	0.667	0.8165
Tenure	22	1.041	1.02036

*Education was classified from 1 to 4 points Due to years of education and scientific evidence.

Table 2: Pearson correlation

		Organizational Performance
Human capital	Pearson	0.521
	SIG	0.013
	N	22
Experience	Pearson	0.445
	SIG	0.038
	N	22
Tenure	Pearson	0.606
	SIG	0.003
	N	22

Table 3: Chi-Square Tests between education and OP.

	Value	df
Pearson Chi-Square	3.234	2
Likelihood Ratio	4.419	2
Linear-by-Linear Association	3.068	1
N of Valid Cases	22	

Table 4: Symmetric Measures.

		Value	Approx. Sig.
Nominal by Nominal	Phi	.383	.199
	Cramer's V	.383	.199

Table 5: Group Statistics

		N	Mean	Std. Deviation	Std. Error Mean
OP	public	9	16.7778	2.58736	.86245
	private	13	21.9231	2.69139	.74646

Table 6: Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper	
OP	Equal variances assumed	.056	.815	-4.477	20	.000	-5.14530	1.14923	-7.54256	-2.74804
	Equal variances not assumed			-4.511	17.811	.000	-5.14530	1.14063	-7.54348	-2.74711

4.1. Pearson Correlation Analysis and Results:

In order to test 1st, 2nd and the 3rd hypothesis, Pearson correlation is used .As you can see in table 2, the significant level of all the 3 hypotheses is smaller than the test level. Therefore, it shows that there is a significant relationship between variables in each hypothesis. The correlation coefficient between human capital and organizational performance is +52/1 and the correlation coefficient between the variables of the 2nd and 3rd hypothesis are +60/6 and + 44/5 which express the direct relationship between in both variables of each hypothesis.

4.2. Pearson Chi-square Analysis and Results:

As you can see in Table 4, the significant level is 0/199 and it's more than 0/05, so it shows hat there is no significant relationship between managers' education and OP.

4.3. T-test Analysis and Results:

As it mentioned, in order to examine the 5th hypothesis, we used t-test in significant level of 0/05 that the result is given in the table 5 and 6. Since the obtained significant level is smaller than the test level, it can be concluded that there is a difference between the private banks performance and the public ones in Guilan province. According to the obtained average, we can say that the organizational performance of private banks is higher than the public ones.

5. Discussion:

Since human capital is a source for innovation and a company's strategic renewal, it is expected that the organization encourage their motivation and increase the way they can be creative and innovative by using capital in an effective way. In the other hand, HC will not be amortized by using it increasingly because by setting in continuous process of improvement, coincident with increase in experience, the economic value will be augmented. For this reason, more organizations prefer experienced HC rather than inexperienced ones. HC is inseparable from its owner and the workforces can work physically in a limited period of time. So, in order to gain benefits from the valuable experience of this capital and provide the context of job creation for young workforce, it is suggested that the experienced workforce feel responsible in the last years of his work for the organization in educating a young workforce that is his future substitute. In addition to the fact that the managers' years of experience have a direct relationship with OP, we should provide terms and conditions which do not lead to the monotony of working conditions by ascending the work years. We should also be able to make profit on this prominent point through motivational factors for the OP's progress.

Regarding the importance of knowledge based economy and also the tendency of developed and developing countries toward this economy, we can find out the important place of education and knowledge in this economy. Thus, it is expected from organizations to try to promote their employees' knowledge and cooperate with their workforce in order to educate them.

Based on the better the performance of private section, it is expected that the public section improve its performance with precise surveys because this section enjoys more resources and also people's confidence. Therefore, this section can use talented, seeking and motivated managers to improve its performance. Through designing extensive plans, it can also improve its profitability in the way of early returns and secure investment.

6. Conclusion:

The results of this research show that there are positive significant relationships between human capital and its 2 out of 3 components (experience, tenure) with organizational performance so that human capital can predict 27.1%, experience can predict 36.7% and tenure can predict 19.8% of OP variable. No significant relationship, however, is distinguishable between the 3rd component of HC (education) and OP. Regarding the differences between the performance of public and private banks, private banks have perform better.

About the 4th hypothesis we can refer to Polany (1967). He stated that although all types of knowledge have an explicit component, personal knowledge is often tacit in nature, reflecting a person's unique social environment and past experience.

Not all knowledge, however, renders a firm unique – it is its tacit component, embedded in the firm's social context, which makes the yielded advantage long lasting (Spender, 1996). As education can be considered explicit knowledge, it may not have more effect on performance.

The small size of universe and sample population in this research may lead to failure in determining relationship between education and performance in this study. Therefore, the subsequent researchers can examine the HC characteristics in a statistically bigger universe to consider the credibility of findings of this research.

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