

# Impact of Human Resource Management Practices on Human Capital Development

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## Abstract

Human Capital is asserted to be the most important element of success in today's business. Developing human capital requires creating and cultivating environments in which human beings can rapidly learn and apply new ideas and attitudes. Corporations are recognizing the importance of investing in their employees now more than ever before. According to that the aim of this research is to see the impact of HRM practices on human capital development. The study took two variables named human resource management practices and human capital development which is analyzed in private banks. Under this there are three dimensions in the HRM practices and two dimensions are in human capital development. Information was gathered from employees who are working in private banks. The sample size is 100 employees in Batticaloa District. The collected data are presented through univariate analysis and bivariate analysis using the SPSS 19.0 software. According to the results obtained through the data, the level of HRM practices and human capital development are in high level. Further it is proved that the HRM practices and human capital development have positive relationship between them.

**Keywords:** Human Resource Management Practices, Human Capital Development

## Introduction

Human capital development, a new notion across organizations, replaces the concept of employee development to face radical changes in the market environment. Simultaneously, devising strategies for developing and managing employees' human capital also facilitates firms to achieve competitive advantage. As a result, firms are more likely to realize improvement in overall financial performance due to sustaining the advantage. However, it depends on how firms differentiate strategies implementation to manage and develop intangible assets or human resources (HR) over tangible assets. Human resource management (HRM) is an important studying field in which much research attention has been given on creating core competencies, because of its "policies, practices, and systems that influence employees' behavior, attitudes and performance" (Noe, Hollenbeck, Gerhart & Wright, 2000).

Organizational HRM is an integrated system from which a set of dynamic and effective HR practices are derived and executed to develop and manage employees in view of achieving business strategic goals and exploit organizational benefits. Since the last two decades of the

20th century, firms have begun to invest financial resources on high technologies and modern production systems (e.g. computer aided manufacturing, computer integrated manufacturing, and flexible manufacturing system) to gain overall operational performance improvement. Snell and Dean (1992), described these organizational HR practices as human capital investments. There the research problem of study is and thus questioning in general, “*Does the human resource management effect on human capital development?*”

## **Literature Review**

### **Human Resource Management Practices**

Human Resource Management (HRM) practices as the world is becoming more competitive and unstable than ever before, service-based industries are seeking to gain competitive advantage at all cost and are turning to more innovative sources through HRM practices. (Sparrow, P., Schuler, R. S. and Jackson, S. E. (1994)). HRM practices have been defined in several aspects. Schuler and Jackson (1987) defined HRM practices as a system that attracts, develops, motivates, and retains employees to ensure the effective implementation and the survival of the organization and its members. Besides, HRM practices is also conceptualized as a set of internally consistent policies and practices designed and implemented to ensure that a firm’s human capital contribute to the achievement of its business objectives (Delery & Doty, 1996). Likewise, Minbaeva (2005) viewed HRM practices a set of practices used by organization to manage human resources through facilitating the development of competencies that are firm specific, produce complex social relation and generate organization knowledge to sustain competitive advantage.

**Training** involves developing a strategic approach that establishes training priorities and leverages investment in training to achieve agency results; identifying specific training initiatives that improve individual and agency performance; ensuring the effective and efficient delivery of training opportunities in an environment that supports learning and change; and demonstrating how training efforts contribute to improved performance and results.

**Recruitment and Hiring** Recruitment and Hiring involves developing and implementing strategies to advertise positions and attract top candidates; assessing applicants' relative competencies or knowledge, skills, and abilities against job related criteria to identify the most qualified candidates; using a variety of candidate assessment tools, such as interviews, to make a selection; and coordinating the process of bringing a new hire on board.

**Performance Appraisal** Performance Management systems are used to plan work and set individual performance expectations, monitor performance throughout the year through ongoing feedback, develop individuals' capacities to perform, and rate and reward individual performance.

### **Importance of human resource management practices to organization**

Measured as the self-ranking relative to its competitors in terms of profitability; labor productivity; and quality of the products/services, firm performance is examined in relation to individual HRM practices (recruitment; training; performance evaluation; and monetary payments). Further considers several additional features that are grouped using factor analysis to build indicators of ‘best practices’ and despite the general conclusion points at professional HRM being matched to an improved firm economic/organizational performance, the four configurations obtained cannot be unambiguously ordered in terms of ‘best practices’, except

for firms in the cluster denoted as 'low-profile'. And, the reported evidence for the US (Gerhart, 2005) suggests that labor productivity and/or organizational performance are positively related to diverse features of HR management systems such as recruitment and selection (Koch y McGrath, 1996); training programs (Bartel, 1994); performance evaluation (McDonald and Smith, 1995); compensation and benefits;(Gómez-Mejía, 1992); and innovative practices (Delaney and Huselid, 1996; Huselid, 1995).

### **Importance of human capital development**

Although an organization or business is a separate legal entity, its ceases to exist if it has no people - leaders, directors, members, employees - are required to maintain an organization's existence. In a society which places a strong emphasis on competition, financial return and viability, the people issues can sometimes be neglected. Increasingly however, business and political leaders are starting to recognize that having good people who are skilled and motivated can make a significant difference.

Treating money spent on people as an investment in an important asset is a far more appropriate mindset that treating such expenditure as an expense, to be kept to the minimum amount necessary.

### **Conceptualization**

Analytical model of research is divided into two groups. This model is going to analyze in this research.

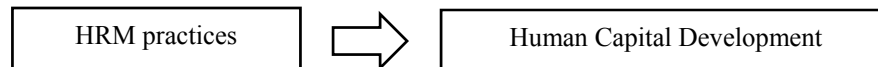


Figure I

Based on this conceptual framework the hypothesis were developed to measure the results. This study reveals the objective as,

Objective 1: To investigate the degree of existance of human resource management practices and human capital management in private sector organizations

Objective 2: To examine the relationship between human resouce management practices and human capital management in private sector organizations

Based on these objectives the hypothesis statement are developed as follows,

H1: The degree of existance of human resouce management practices and human capital management is high in private sector organizations

H2: there is a positive relationship between human resouce management practices and human capital management in private sector organizations.

### **Methodology**

Regarding objectives of this study unit of analysis is the individual staff of the selected private banks in Batticaloa. The study totally depends on primary data. The primary data will be collected through questionnaire from 100 staff of private banks by using simple random sampling. The sample data were analyzed according to the descriptive statistics, correlation and regression analysis by using SPSS (19.0) The questionnaires were issued to 135 staff of

selected private sector bank branches and 100 questionnaires are received. Research information are collected through six dimensions under two variables. Training, recruitment and performance appraisal are from HRM practices. These dimensions are analyzed by each five questions. Human capital objectives and aims, knowledge and skill. These dimensions are measured with four questions.

#### Univariate Analysis and Evaluation

Central tendency of mean and Standard Deviation are in consideration. The mean value is lying in the range of 1 to 5 and the value of each respondent for a dimension is compared with the medium value of 3. In evaluating the samples as a whole the mean value of the respondent is compared with the medium. The decision rule can be formulated as follows

Table I: Decision criteria for univariate analysis

Range for decision criteria	Decision Criteria	Decision attribute
$1 \leq X \leq 2.5$	$X < 3$	Low level
$2.5 < X \leq 3.5$	$X = 3$	Moderate level
$3.5 < X \leq 5.0$	$X > 3$	High level

#### Bivariate Analysis and Evaluation

The bivariate analysis is to explore the relationship between the two variables. In this context the correlation analysis is carried out to measure the strength of relationship between the variables human resource management practices and human capital development.

Table II: Decision Criteria For Bivariate Analysis

Range	Decision attributes
$r = 0.1$ to $0.29$ or $r = -0.10$ to $-0.29$	Low influence
$r = 0.3$ to $0.49$ or $r = -0.3$ to $-0.49$	Medium influence
$r = 0.5$ to $1.0$ or $r = -0.5$ to $-1.0$	High influence

**(+) = positive impact, (-) = negative impact**

(Julie Pallant, 2004, SPSS Survival Manual)

#### Regression Analysis

The line regression explained the pattern of variation of depending variables in relation to values of the independent variable. In this research to find what relationship exists between human resource management practices and human capital development, the regression is applied. This could be explained through the following equation.

$$Y = a + bx$$

a = Point cutting a cross axis Y, that is value of Y when x = 0

b = Slanting of the regression line

## Data Analysis

### Reliability

Reliability test was conducted on the tool to test the reliability of the instrument. The cronbach's alpha value for the scale was 0.8176

Table 5.1 Reliability Analysis for Human Resource Management Practices

Variable	No of Statement	Cronbach's Alpha
Training	5	0.821
Recruitment	5	0.786
Performance Appraisal	5	0.864
HCD	12	0.826
Overall Value(HRMP)	25	0.817

### Level of HRM Practices and Human Capital Development

Table 5.2 Level of Human Resource Management Practices

Dimension	Mean	SD	Decision Attribute
Training	3.778	0.823	<i>High Level</i>
Recruitment	3.626	0.884	<i>High Level</i>
Performance Appraisal	3.534	0.899	<i>High Level</i>
<b>Overall (HRMP)</b>	<b>3.636</b>	<b>0.875</b>	<b><i>High Level</i></b>

Source survey data

The above table shows the mean value and the standard deviation for the variable of human resource management practices. It shows that the training has with mean value of 3.77 with standard deviation 0.823 which shows that high level of training and the dimension recruitment which consists of mean value of 3.626 and standard deviation with 0.884. The dimension performance appraisal has shown the value of mean as 3.534 and which reveals that there high level of existence of HR practices.

Table 5.3 Human capital Development

Dimension	Mean	St. de	Decision Attribute
Human capital development objective	3.65	0.935	<i>High Level</i>
Knowledge	3.67	0.839	<i>High Level</i>
Skill	3.55	0.936	<i>High Level</i>
<b>Overall Value HCD</b>	<b>3.623</b>	<b>0.903</b>	<b><i>High Level</i></b>

Source: Survey data

The above table shows the mean value and the standard deviation for the variable of human capital development. It shows that the human capital development objectives has with mean value of 3.65 with standard deviation 0.935 which shows that high level of HCD objectives and the dimension knowledge which consists of mean value of 3.67 and standard deviation with 0.839. It also reflects the knowledge is in the high level in the private banks. The skill shows

that 3.55 mean value and 0.936 value of SD. The above table shows that there is high level human capital development in private sector banks.

All together it can be concluded that there is high level of human capital development in private banks.

### Relationship between Dimensions of HRMP and HCD

Table 5.4 Coefficient of Correlation between dimensions of HRMP and HCD

Dimension	HRMP			Overall value
	training	recruitment	Performance Appraisal	
Objective				
R	0.614	0.619	0.666	0.732
Sig (2- tailed)	0.000	0.000	0.000	0.000
Knowledge				
R	0.662	0.752	0.671	0.739
Sig (2 – tailed)	0.000	0.000	0.000	0.000
Skill				
R	0.527	0.568	0.576	0.662
Sig (2 – tailed)	0.000	0.000	0.000	0.000
Overall value				
R				
Sig (2 – tailed)	0.673	0.722	0.716	0.817
	0.000	0.000	0.000	0.000

Source: Survey data

Correlation regarding dimensions of HRMP and dimensions of HCD are clearly shown in table 5.24. According to the correlation matrix correlation between Training factors and Human Capital Objective ( $r = 0.614, p < 0.05$ ) had fallen on ( $r = 0.5$  to  $1$ ), it was found as high level positive relationship. Correlation between Training factors and Knowledge ( $r = 0.662, p < 0.05$ ) had fallen on ( $r = 0.5$  to  $1.0$ ), it was found as high level positive relationship. Correlation between Training factors and Skill ( $r = 0.527, p < 0.05$ ) had fallen on ( $r = 0.5$  to  $1$ ), it was found as high level positive relationship. Correlation between organizational factors and overall Human Capital Development ( $r = 0.673, p < 0.05$ ) had fallen on ( $r = 0.5$  to  $1.0$ ), it was found as high level positive relationship.

Correlation between Recruitment factors and Human Capital Objective ( $r = 0.619, p < 0.05$ ) had fallen on ( $r = 0.5$  to  $1.0$ ), it was found as High level positive relationship. Correlation between Recruitment factors and Knowledge ( $r = 0.752, p < 0.05$ ) had fallen on ( $r = 0.5$  to  $1.0$ ), it was found as High level positive relationship. Correlation between Recruitment factors and Skill ( $r = 0.568, p < 0.05$ ) had fallen on ( $r = 0.5$  to  $1.0$ ), it was found as high level positive relationship. Correlation between Recruitment factors and overall Human Capital Development ( $r = 0.722, p < 0.05$ ) had fallen on ( $r = 0.5$  to  $1.0$ ), it was found as high level positive relationship.

Correlation between Performance Appraisal factors and Human Capital Objective ( $r = 0.666, p < 0.05$ ) had fallen on ( $r = 0.5$  to  $1.0$ ), it was found as High level positive relationship.

Correlation between Performance Appraisal factors and Knowledge ( $r = 0.671, p < 0.05$ ) had fallen on ( $r = 0.5$  to  $1.0$ ), it was found as High level positive relationship. Correlation between Performance Appraisal factors and Skill ( $r = 0.576, p < 0.05$ ) had fallen on ( $r = 0.5$  to  $1.0$ ), it was found as high level positive relationship. Correlation between Performance Appraisal factors and overall Human Capital Development ( $r = 0.716, p < 0.05$ ) had fallen on ( $r = 0.5$  to  $1.0$ ), it was found as high level positive relationship.

Correlation between overall HRMP and Human Capital Objective ( $r = 0.732, p < 0.05$ ) had fallen on ( $r = 0.5$  to  $1.0$ ), it was found as high level positive relationship. Correlation between overall HRMP and Knowledge ( $r = 0.739, p < 0.05$ ) had fallen on ( $r = 0.5$  to  $1.0$ ), it was found as high level positive relationship. Correlation between overall HRMP and Skill ( $r = 0.662, p < 0.05$ ) had fallen on ( $r = 0.5$  to  $1.0$ ), it was found as high level positive relationship.

Table 5.4 Regression analysis of variables

Model	R	R-square	Adjusted square	R-	Std. Error of the Estimate
1	0.817	0.668	0.664		0.3792

Source: Survey data

According to the regression analysis the r square is 0.668; it indicated that 67% of Human Capital Development has been influenced by HRMP. That means if any increase in HRMP will increase the human Capital Development by 67% and if any decrease in HRMP that leads to decrease the human Capital Development by 67%.

Table 5.5 Associations between HRMP and HCD

Variables	Unstandeddized coefficient		t-test	Sig	R <sup>2</sup>
	B	SE			
Constant	0.417	0.248	1.682	0.03	-
Training	0.282	0.113	2.500	0.000	0.746
Recruitment	0.151	0.092	1.645	0.000	0.513
Performance Appraisal	0.141	0.085	1.555	0.000	0.45

A Dependent Variable: Human capital development  
(Source –Survey Data)

In predicting the Human capital development of the organization in Banking sector (Table 5.26) it is found that training of employees is found to be the most important variable ( $\beta = 0.282, t = 2.500$ ) followed by recruitment ( $\beta = 0.151, t = 1.645$ ) and finally performance appraisal ( $\beta = 0.141, t = 0.085$ ).

#### Regression Equation

Human Capital Development =  $0.417 + 0.282$  (training)  $+ 0.256$  (Career management)  $+ 0.157$  (recruitment)  $+ 0.141$  (Performance appraisal).

## **Discussion and Findings**

### **Level of HRM practices**

Information's regarding HRM Practices was measured through three dimensions which are training, recruitment and performance appraisal. The mean value of HRMP is  $X_1 = 3.67$  (3.680) and standard deviation is 1.222. According to this study decision attribute HRMP found as high level at selected banks, which means the selected banks have to pay high level attention in HRMP. Because human resource management practices are the key to achieve any business objective in organization.

### **Levels of Human Capital development (HCD)**

Information regarding Human Capital development was measured through three dimensions which are human capital development objective, knowledge and skill. The mean value of HCD is  $X_1 = 3.69$  (3.962) with the standard deviation of 0.7308, according to this study decision attribute HCD found as high level at selected banks, which means the selected banks have to pay high attention on HCD, because human resource management practices facilitate to human capital development in competitive environment.

### **Relationship between Human Resource Management Practices and Human Capital Development**

The correlation of coefficient ( $r$ ) was 0.817, which was significant at 0.000 levels. In addition, there is a higher level of HRMP likewise higher level of HCD in selected banks in Manmunai North of Batticaloa district. Thus the result interpreted as there is strong positive correlation ( $r > 0.5$ ) between HRMP and HCD

### **Influence between Variables**

The coefficient of determination  $R^2$  was compared to determine percentage variation in the dependent variable. F value was to compute the significance of  $R^2$  with F-distribution at 5% level of significance. The model is found fit on significance (.000) of independent variable and proving perceived human capital development depends on HR Practices like recruitment, training, and performance appraisal. The prediction ability of the model is expressed by R square which was 0.668 whereby 67%, of the variance in perceived human capital development was explained by HR practices. That means if any increase in HRMP will increase the human Capital Development by 67% and if any decrease in HRMP that leads to decrease the human Capital Development by 67%.

## **Conclusion**

Measuring the level of HRMP among the employees of selected banks in Batticaloa district, it's clearly evident that all (HRMP) dimensions were high level in all eight selected banks. And also all the Human resource management practices dimensions values have high level of positive relationship with human capital development. The coefficient of determination  $R^2$  was compared to determine percentage variation in the dependent variable. The model is found fit on significance (0.000) of independent variable and proving perceived human capital development depends on HR Practices.



## Recommendations

Banks initiated to provide career-oriented training to align employee needs with organizational needs low tenured employees value their career greatly and have willingness to attend training programs to improve their performance in comparison with highly tenured employees. So they utilize the present opportunities like participating in career oriented workshops, and job rotation and self-nomination for job mobility within a firm.

In recruitment banks can give more attention for creation of new job position for new talent, more money spent for select best candidates with new talent and ability, develop recruitment strategy based on better think, banking industries give extra opportunity for overcoming weaknesses.

In performance appraisal they can increase beneficial performance discussions with superiors and employees. Facilitating performance-oriented discussions between managers and employees, and as a result, the desired skills for achieving organizational goals are consolidated. The banking industry should design and provide high quality of human resource management practices. They can design HRMP tools and systems more flexibility in order to create satisfied employees

Management should follow good behaviour with their employees to develop organization success and human capital development. Banks should have enough capable programs to develop human capital (knowledge based program and skill development activity).

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