

Effect of Human Capital on Organization Performance: An Analysis from Service Sector of Punjab, Pakistan

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Abstract

In today's fast changing environment, where globalization is taking place, competition is increasing day by day. So, it has become a challenge for organizations to remain competitive. In order to remain competitive, it has become necessary for organizations to find ways through which they can compete in competitive world. For this reason, human capital is such a resource that can provide organizations with competitive advantage as human capital resource cannot be easily copied or imitated. In order to find out the impact of human capital on organization performance, present study is carried out in service sector of Punjab, Pakistan. For this purpose data was collected from five major cities of Punjab, Pakistan. Respondents were faculty members of universities and officer grade employees of banking sector. Analysis showed that human capital does affect the career, job and life satisfaction of employees which are indicators of organization performance. Empirical analysis showed that human capital positively affects the career satisfaction as was shown by $\beta = 0.500$, and significant at $p = 0.000$. Same is case with human capital and job satisfaction as represented by $\beta = 0.281$, and significant at $p = 0.000$. Human Capital and life satisfaction were also found to be dependent as shown by $\beta = 0.301$, significant at $p = 0.000$.

Keywords: Career Satisfaction, Human Capital, Job Satisfaction, Life Satisfaction of Employees, Organization Performance.

Introduction

In today's fast changing environment, where the globalization is taking place everywhere, it is a challenge for organizations to be remain competitive in market. Human capital is one of biggest source of competitive advantage for organizations that cannot be easily imitated by other organizations while other capital like structural or financial capital can be copied easily. According to Ali et al., (2012). human capital refers to "hours worked, work experience organization tenure, job tenure, willingness to transfer, educational level, international work-experience, career planning, political knowledge and skills etc.". According to different scholars like Burt (2000), Adler and Kwon (2002) defined the social capital as "team spirit, harmony, confidence, and easiness that derive from social relationship involving family, friends, workmates and others and provide access to valuable resources such as information, influence and unity that facilitate action". Performance is one of the focal variables in administration research, yet has gotten minimal scholarly consideration. The performance is an especially critical result in the investigation of social capital and authoritative citizenship conduct. Analysts have made a refinement between undertaking execution and logical execution (Motowidlo et al., 1997). Organizational performance is characterized as the financial results coming about because of the interchange among an organization's attributes, activities and environment. Domain of organizational effectiveness can only be specified if we relate it to broader

construct of organizational effectiveness. Organization effectiveness can be defined as: “the level which organizations are accomplishing every one of the reasons they should”. Organizations acquire distinctive effectiveness on the basis of diverse constituencies. Firm performance and other performance concepts like corporate environment or social performance are main focuses of organization effectiveness which are of main concern or practice and research. (Abston et al., 2006).

Human capital means stock of capabilities, competencies, knowledge, abilities and personality characteristics to do labor for producing economic value. Human capital denotes the investment which is made by people in them or in their organization. (Sullivan, 2003). The theory of Human capital which was suggested by Schultz. He has settled the theory in his research article “Investing in People” has presented the theory of human capital. Schultz said in his article that skills and knowledge are types of capital, and capital is deliberate investment’s product. Human capital’s concept involves investing in people’s training as well as in their education. Schultz compared achievement of abilities and knowledge to acquire production’s means. Schultz argued that investment in human capital leads to a rise productivity of human, as a result which leads to an increase in return rate. (Schultz, 1961).

Human capital situation in Pakistan in light of the literature mentioned in previous pages, one reason of the third world's destitution for the most part and Pakistan particularly there is no more interest in human capital. Dissimilarity between monetary development and human advancement is more noteworthy in Pakistan than in the greater part of alternate nations of Asia. Pakistan introduces an interesting mix of numerous disagreements: “the nation has one of the most minimal rate of literacy on the planet, yet some of its exceptionally taught individuals have ruled numerous universal gatherings” “powerless establishment and solid individual” “financial development without human advancement” “private avarice and absence of social pay” “race customs without genuine popular government” (Haq et al., 2000). The government of Pakistan's spending on education sector was 2.1 % of GDP in 2014, and is fully committed to enhance educational spending from 2.1% of GDP to 4.0% of GDP by 2018. Pakistan has human advancement list rank of 146, having HDI 0.537, showed improvement of mere 0.002 points from last year's score of 0.535 (HDR, 2015). Pakistan has achieved improvement by three notches and attained 126th position in Global Competitiveness Report 2015 compared to 129th position last year among 140 countries. Expenditures of Pakistan on education and health are 2, 1% and 0.42% of GDP. Almost 45% of the population of Pakistan is uneducated, with total investment rate of 15.12% of GDP, having 65569740 labor forces in 2013 according to World Bank. The education investment in Pakistan in the most recent 60 year did not reach to 3% of the GDP”. By education expenditure 2013 just 2.1% of the educational institutions have palatable circumstance as indicated by building condition. Insufficiently educated work power having score of 71.6 on intensity positioning is a standout amongst the most risky variables in working together in Pakistan (GOP, 2015).

(Wang, 2008) focused on that it is crucial to perceive the multidimensional way of the development of the execution. Accordingly, the examination considers a solitary measurement or a slender scope of building execution (eg, a few pointers of gainfulness) which might prompt the development of the elucidating and regulating hypothesis deceiving. Exploration ought to incorporate a few measures of execution. These measures could incorporate conventional bookkeeping measures, for example, deals development, piece of the pie and productivity. Moreover, elements, for example, general fulfillment and non-budgetary destinations of the proprietors are additionally imperative in the execution assessment, especially in the private division. This is steady with the perspective of (Zahra, 2000). who expressed that money related and non-budgetary measures ought to be utilized to survey hierarchical execution. The methodology drives By proprietor supervisors to center their consideration on the money related emergency

(objective) and non-monetary measures (subjective) Financial measures incorporate benefits, incomes, rate of profitability (ROI), return on deals and return on value, deals development and productivity development. Non-monetary measures incorporate the general execution of the organization in respect to its rivals, the utilization of extra representatives, consumer loyalty, worker fulfillment, client unwaveringness, brand mindfulness and proprietor fulfillment with how the business is going (Johenson et al., 2005).

Research of (Shoghi et al., 2013). drove an investigation to know the impact of academic capital on the corporate business. They accumulated data by method for analyst through the metal business of Iran. The hypothesis were recognized along these lines exhibited that academic capital is one of the basic wellspring of expanding centered edge and is helpful in enhancing the execution of the affiliation and in their change and is also valuable in propelling the entrepreneurial activities of the associations". Results about likewise demonstrated that differing qualities in human capital is connected with the creative performance of the organizations since when assorted gathering of individuals sit together share their data, information and innovativeness will result in latest creativity. Results recommended that top administration, firm's cooperative attitude and different human capital assume huge part in entrepreneurial execution. Human capital can be divided into general human capital and specific human capital. General human capital in the case of the entrepreneur is usually measured by the level of instruction and the total number of years of work experience. Specific human capital includes specific teaching of the company, specific skills related industry experience and management experience. (Ganotakis, 2012).

(Mahmood et al., 2014). conducted research on the relationship between organizational human capital and organizational performance. Questionnaire has been used to collect the data from a sample of 237 employees working at executive positions in different organizations. For analysis purpose, different regression techniques were used. Researchers concluded that organizational human capital has positive impact on organizational performance. (Allen et.al., 2008). proposed that university staff who is engaged in entrepreneurial activities are directly associated with patenting needs of that industry, this study was conducted on the educational sector of U.S In order to understand the association of entrepreneurship and human capital. It was observed that patenting endures an unmistakable part of staff business, particularly, basic activity that consequence in united authorized advancement and this association was tested by demographics like job tenure of respondents and age, and those employees whose tenure were long are more associated with these activities, the employees which ere alder in age demonstrate more interest in patenting actions. These findings recommended that personnel skill and expertise are very imperative for the business because it is for the mutual benefit of both the parties.

Research Methodology

The purpose of this research is to investigate the effect of human capital in service industry of Punjab, Pakistan. Population is all universities and hospitals of Punjab, Pakistan. Multistage stratified random sampling technique has been used to select the respondents. This technique has been used because different stages have been used to select the final respondents. First from service sector only hospitals and universities were chosen. From Punjab only few cities were chosen. Then from respondents only officer grade employees and from universities only teaching faculty was chosen. For this purpose, hospitals and educational sector (both public and private) of major cities according to population of Punjab has been chosen. Five cities which were selected randomly according to population wise are Lahore, Faisalabad, Rawalpindi/Islamabad, Multan and Bahawalpur according to population survey in 2012. Service sector has been selected due to different reasons. This sector of Pakistan has gone through profound and rapid changes in last few

years, due to advancement in technology and global competition and increase interest of consumer towards services that are provided to them. These changes caused a change in overall HR practices. As a result, the organization started hiring more educated and young employees. From Banks employees of only OGI, OGII and OGIII rank are the respondents. From universities only faculty members were respondents.

Data collection method and procedure

Questionnaires have been used to collect the data. Questionnaire has been distributed and collected personally, through personal contacts and via email. Respondents have been given surety that collected data will be utilized only for educational purpose and all the information provided will be kept confidential.

Measures

Human capital was measured by using components such as knowledge, professional proficiency; experience and cognitive ability and scale was used developed by (Boden et al., 2000).

Organization performance was measured using subjective measures of performance which are career satisfaction, life satisfaction and job satisfaction.

1). Job Satisfaction: These to Locke (1976) are: the work itself, pay, promotion opportunities, supervision and coworkers. 5 item scales is used developed (Locke, 1976).

2) Career Satisfaction, Career satisfaction is measured by using the 5 item scale which was developed by (Greenhaus et al., 1990).

3). Life Satisfaction. It captures a reflective assessment of which life circumstances and conditions are important for subjective well-being 7 item scale is used which is developed by (Scott Huebner et al., 2001).

Data coding and analysis techniques

For sake of analysis purpose, data which have been gathered through questionnaire and email have been entered into SPSS and SPSS have been used for analysis purpose.

Results and Discussion

Analysis of human capital effects organization performance

Organization performance is measured through different indicators for present study like job satisfaction, life satisfaction and career satisfaction. Detail analysis of impact of human capital on career, job and life satisfaction of employees is given below.

Effect of human capital on career satisfaction of employees

To find the direct relationship between human capital as a composite construct and career satisfaction we treated both variables as imputed and observed where human capital was endogenous variable and career satisfaction was exogenous variable as shown in diagram. The overall relationship was strong positive with $p < .001$, $B = .500$. Analysis shows that 1% increase or decrease in human capital will cause 50% increase or decrease in career satisfaction of employees.

Table 1: Effect of Human Capital on Career Satisfaction

		Paths/Variables	Estimate	S.E.	C.R.	P
Sat_Car	<---	Human_Capital	.500	.031	16.046	***

Mathematical Equation for the relationship is:

$$Y = \beta_0 + \beta_1 X_1 + \epsilon$$

$$Y = \beta_0 + 0.500 X_1 + \epsilon$$

Where

Y = Dependent Variable (Career Satisfaction)

X1= Independent Variable (Human Capital)

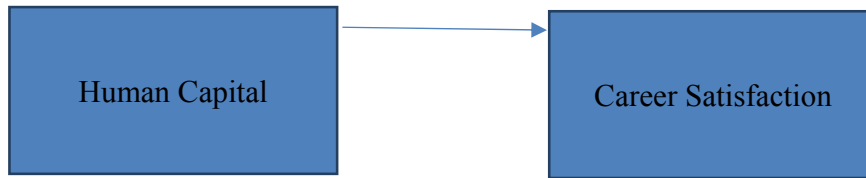


Fig 1: Effect of Human Capital on Career Satisfaction

Effect of human capital on job satisfaction of employees

To find the relationship between human capital as a composite construct and job satisfaction we treated both variables as imputed and observed where human capital was endogenous variable and job satisfaction was exogenous variable as shown in diagram. The overall relationship was strong positive with $p < .001$, $B = .281$. Analysis shows that 1% increase or decrease in human capital will cause 28.1% increase or decrease in job satisfaction of employees.

Table 2: Effect of Human Capital on Job Satisfaction

		Paths/Variables	Estimate	S.E.	C.R.	P
J_Car	<---	Human_Capital	.281	.031	8.966	***

Mathematical Equation for the relationship is:

$$Y = \beta_0 + \beta_1 X_1 + \epsilon$$

$$Y = \beta_0 + 0.281 X_1 + \epsilon$$

Where

Y = Dependent Variable (Job Satisfaction)

X1= Independent Variable (Human Capital)

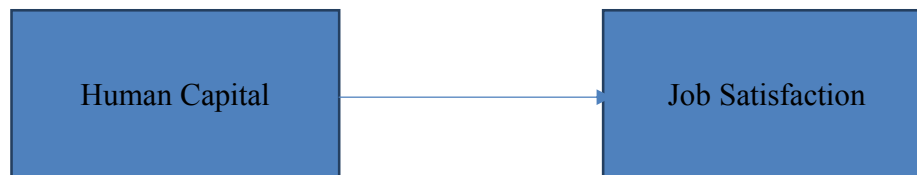


Fig 2: Effect of Human Capital on Job Satisfaction

Effect of human capital on life satisfaction of employees

To find the direct relationship between human capital as a composite construct and life satisfaction we treated both variables as imputed and observed where human capital was endogenous variable and life satisfaction was exogenous variable as shown in diagram. The overall relationship was strong positive with $p < .001$, $B = .303$. It is clear from analysis that 1% increase or decrease in Human Capital will cause 30% increase or decrease in life satisfaction of employees.

Table 3 : Effect of Human Capital on Life Satisfaction

	Paths/Variables		Estimate	S.E.	C.R.	P
life	<---	Human_Capital	.303	.017	18.029	***

Mathematical Equation for the relationship is:

$$Y = \beta_0 + \beta_1 X_1 + \epsilon$$

$$Y = \beta_0 + 0.303 X_1 + \epsilon$$

Where

Y = Dependent Variable (Life Satisfaction)

X₁ = Independent Variable (Human Capital)



Fig 3: Effect of Human Capital on Life Satisfaction

Conclusion

After doing the empirical analysis, researcher came to the conclusion that in today's era, where competition is getting tough and tough, human capital is such a source which can positively or negatively affects the satisfaction level of employees in the organization. Empirical analysis showed that human capital positively affects the career satisfaction (0.500, $p = 0.000$), job satisfaction (0.281, $p = 0.000$) and life satisfaction ($B = 0.301$, $p = 0.000$) of employees. Results are in accordance with results of previous studies conducted by different scholars.

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