Training and Development; and Performance Improvement: Making a Case for Investment in Human Capital.

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Abstract: Though organisations seem to go comfortably along with the dictum that human resources are the most important assets any organisation could have; few really mean what they say; which is reflective in the way they regard human capital and organisations in Ghana as a country, is not an exception! Taking into account the significance of human capital in our knowledge-based society, this paper focuses on a review of literature and research work on employee training and development and emphasises the importance of such investments on organisational performance and particularly, for organisations in sub-Saharan Africa, like Ghana.

Keywords: training and development, investment, human capital

I. Introduction

A vital tool to realising an organisation’s goals and objectives is its human capital endowment – the skills and capacities that reside in people and that are put to productive use. This could be more important in determining its long-term economic success than virtually any other resource (World Economic Forum, 2015). Human capital represents the human factor in the organization; the combined intelligence, skills and expertise that gives the organization its distinctive character. This resource must be invested in and leveraged efficiently in order to generate returns for the individual involved as well as the organisation as a whole. This can be successfully achieved through education, training, and development. A famous author (Carnegie, 1919) once said that, the only irreplaceable capital an organization possesses is the knowledge and ability of its people. The productivity of that capital depends therefore, on investments made in those people through educational activities for skills acquisition which will ultimately lead to capacity building and skills utilisation (Iyumade, 2017). Thus, without these investments, skills cannot be acquired and there cannot be self-development and socio-economic capitalisation. And this is, in fact, the premise of human capital theory.

Human capital theory views education as a productive investment which is considered as equally or even equally more worthwhile than physical capital. The proponent of this theory, Schultz (1971), argued that education does not only improve the individual choices available to him; but that an educated population provides the type of labor force necessary for industrial development and economic growth. Training and development have been seen to be invaluable in increasing productivity in organisations since it does not only enhance employees resourcefully but also provides them with opportunity to virtually learn their jobs and perform more competently (Tiwari, 2014). Hence increasing not only employees’ productivity but also organisation’s productivity. The human elements of the organization are those that are capable of learning, changing, innovating, and providing the creative thrust which if properly motivated can ensure the long-term survival of the organization (Kudonoo & Tsedzah, 2015).

Generally, investing in human capital, is not the same as investing in equipment or machinery. When an organization invests in new equipment, for example, the cost can be depreciated over multiple years; but when an organization invests in employee training and development, it is a cost for that year and cannot be depreciated. And so for some time now, arguments from an accounting point of view, suggest it is better to invest in the equipment that employees use than it is to invest in the employees using that equipment. It is of no wonder then, that though most managers are fond of the maxim, ‘employees are our most important assets’, too many of them still regard and manage employees as costs. That is dangerous, according to Bassi and McMurrer (2007) owing to the fact that for many companies, people are the only source of long-term competitive advantage. Thus, those who fail to invest in employees jeopardise their own success and even survival. What some managers do not know is that investing in human capital through training and development improves individual employee capabilities and organizational capabilities; that investments in training and development of employees can make them more productive or more effective in their jobs, which directly contributes to the bottom line. This notwithstanding, Tzafrir, (2005) cited in Sambasivan and Wong (2013) indicate that there are companies that are still facing a dilemma whether to invest in training and development due to the fact that

DOI: 10.9790/487X-2005080106

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outcomes are usually underestimated. Investing in human capital namely education, health and training aims to develop professional and scientific training of available human resources, but also adapt human resources to changes imposed by the environment. In support of this, Jeremy (2013) reiterates that the machinery, equipment, inventory, and other assets of the 21st century company have no real economic value without people to work them; and that human knowledge and human skills are the real and the future 21st century engines of productivity. He concludes by further stating that there is even a widespread perception that the value of human capital may represent a significant proportion of overall corporate productive capacity relative to current assets and fixed capital (Jeremy, 2013).

People - human resources - who work in organizations today unlike in the past, are considered one of the most valuable assets an organization can acquire, maintain and develop in order to attain competitive advantage (Dessler, 2011). Thus, the most successful organizations are those who are able to acquire, develop and maintain high quality employees. Otolube, Ajayi and Kpolovie (2011) suggest that success is dependent on an organisation’s knowledgeable, skilled as well as experienced workforce. Therefore, in order to maintain sustainability, organisations must see continuous employee training and development as useful. Training and development, which is deemed an investment in human capital, leads to high quality employees who are motivated to remain with organizations since they experience satisfaction on the job (Gupta & Shaw, 2014). This is because satisfied employees form a bond with the company and take pride in their organization membership; they believe in the goals and values of the organization therefore, these employees display high levels of performance and productivity. On the other hand, dissatisfied employees display characteristics of low productivity, absenteeism, and turnover. These traits are highly costly for organizations as such, an organization’s success highly depends on its ability to keep its best assets while honing their skills and abilities through training and development. This therefore, makes training and development a critical element in enhancing and sustaining organisational performance. According to Nishtha and Amit (2010), training and development of employees is essential at all levels due to the reason that skills erode and become obsolete over a period of time and has to be replenished. Investing in human capital through training and development leads to the commitment of human resource and as indicated by Noe, Hollenbeck, Gerhart and Wright (2010), committed human resources who create new ideas, deliver value and innovate for growth in order to maximise organisational performance are key assets of organisations.

Nishtha and Amit (2010) indicate that an investment in human capital means investing in education or some form of on-the-job training to improve workforce quality. Such investments provide returns to the individual as well as to the economy as a whole. Individuals benefit from higher earnings, and the economy as a whole benefit from higher productivity. Investing in the best human assets therefore is an absolute priority in the value creating organization. To buttress this point, Kudonoo and Tsedzah (2015) indicate that the need for organizations to pay more attention to effective management of their human capital cannot be overemphasized since it is a prerequisite for high performance and success. Unfortunately, a cursory observation of some renowned organisations in Ghana, shows these organisations either do not know or rather, do not take seriously, the importance of investing in human capital. The paper thus, drawing on extant literature, draws attention to the need for investment in human capital; and makes a case that human capital is concerned with the added value people provide organisations, as such an organisation’s performance is enhanced through investment in human capital through training and development.

II. Literature Review

This section reviews literature on the concepts training and development, human capital, performance and concludes by exploring the relationship between training and development and performance.

Training and Development

The need for investments in human capital through training and development has arisen out of the need to enhance employee skills and upgrade their existing knowledge in order for them to perform better and the fact that employees need to grow with time. DeCenzo and Robbins (2000), explain training as a learning experience, in that, it seeks a relatively permanent change in an individual that will improve his ability to perform on the job. This means training must be designed in such a way that, it will involve either the changing or enhancing of skills, knowledge, attitudes, and social behavior. Training thus consists of planned programmes designed to improve performance at the individual, group or organizational levels (Cascio, 1992). Ivancevich (2010) defines training as an attempt to improve current or future performance of an employee and it is important for both new and current employees. According to Nda and Fard (2013), training and development is an instrument that aid human capital in exploring their dexterity. And because technology also becomes obsolete with time employees need to keep themselves abreast with the latest developments to survive fierce competition; since similar skills and techniques cannot be applied everywhere (Vasantham, 2015). Thus, Ekundayo (2015) emphasizes the
significance of training and development by suggesting that it makes employees aware of the latest developments and what is happening around them. Dessler (2011), Nel, du Plessis, Fazey, Erwee and Pillay (2012) further state that it is the hearts and minds of people rather than their hands, that are essential to the growth and prosperity of an organisation; making employee training and development one of the most important issues for the foreseeable future. Training therefore needs to be seen by management of every organization as a long term investment in its human resource since the right employee training, development and education, at the right time, provides big payoffs for the employer in increased productivity, knowledge, loyalty, and contribution.

Though some have used training and development interchangeably, others draw a line of distinction between them. For example, Cascio (1992) indicates that training implies preparation for an occupation or specific skills and therefore narrower in conception than either education or development; it is job oriented than personal whereas development usually suggests a much broader view of knowledge and skill acquisition than training. Obisi (2011) defines training as a process through which skills, talent and knowledge of the employee is enhanced and increased but differentiates between the two by indicating that training is for a specific job purpose while development goes beyond specifics to improve job performance, and bring about growth of personality. Human capital development according to Huzz (1998) has to do with the concept of human capital or education, skill level and problem solving abilities that will enable an individual to be a productive worker in the global economy of the 21st century. The emphasis here is learning to learn, learning to transform information into new knowledge and learning to transform new knowledge into application (World Bank, 2002). Thus, human capital development is when the creative potentials of the people are developed and their ability to participate in development process enhanced.

Human resource practitioners provide three types of learning activities to employees of their organizations namely, education, training and development. Training, education and development programs all aim at promoting learning. Training and development of human capital holds the key to unlock the potential growth and development opportunities to achieve a competitive edge (Rama & Shaik, 2012). Thus, knowledge, skill and abilities are determinants of employees’ performance which organizations need to continuously invest in wisely in order to improve their employees’ productivity. This makes very necessary, a congenial training and development climate for the fact that competent employees are the greatest assets of any organization.

The Concept of Human capital

Theodore Schultz invented the term ‘human capital’ in 1960’s to reflect the value of our human capabilities (Hossain & Roy, 2016). He believed human capital was like any other capital that could be invested in through education, training and enhanced benefits that will lead to an improvement in the quality and level of production. Beckers (1993) asserts that human capital is a stock of competencies, knowledge, skills and personal attributes embodied in the ability to perform labour so as to produce economic value. According to Westphalen (1999), human capital is knowledge, skills, competencies and other attributes embodied in individuals or groups of individuals acquired during their life and used to produce goods, services or ideas in market circumstances. Human capital is an attribute gained by a worker through her training, learning, experience and development. In the same vein, Dess and Picken (1999) defined human capital to consist of the individual’s capabilities, knowledge, skills and experience of the company’s employees and managers, as they are relevant to the task at hand, as well as the capacity to add to this reservoir of knowledge, skills, and experience through individual learning. Ukwuaba (2015) asserts that Human capital means human beings who have acquired skills, knowledge and attitudes which are needed to achieve national development.

According to human capital theory, any stock of knowledge, skills and characteristics of workers in the innate or acquired form contribute to productivity, as a result, regarded as human capital. The theory further states that human capital can appreciate or depreciate depending on its development and usage. It appreciates when an individual’s knowledge, skills and competencies are in constant use and upgraded to meet the changing job requirements. On the other hand, it depreciates when one is out of work over a period of time or is unable to upgrade his/her skills, knowledge and competencies to meet the changing job requirements; using old ways to resolve current issues leads to unsatisfactory results (Beckers, 1993). The premise of the Human capital theory is that people possess innate abilities, behaviour and personal energy and these elements make up the human capital they bring to their work (Davenport, 1998). According to Nishtha and Amit (2010), people and their collective skills, abilities and experience coupled with their ability to deploy these in the interest of the employing organisation, are now recognised as making a significant contribution to organisational success and constituting a significant source of competitive advantage. This idea suggests that an organization competes through people and highlights the fact that success increasingly depends on an organization’s ability to manage human capital. That is why the focus must be on the training and development of human capital. Armstrong (2010) explains that individuals generate, retain and use knowledge and create intellectual capital. Their knowledge is further enhanced by interactions between them (social capital) and generates the institutionalised
knowledge which the organisation possesses and becomes its source of competitive advantage. Armstrong (2010) further highlights that the human capital theory is closely linked to the Resource Based View (RBV) of firms. The RBV suggests that sustainable competitive advantage is attainable when firms have a human resource pool which cannot be imitated or substituted by rivals. According to this view, firms should constantly evaluate their workforce to ensure that they have the right people with the right skills in the right places to ensure sustained competitive advantage (Barney, 1991). Thus, in reinforcing these ideas, the resource-based theory emphasizes the uniqueness of organizations and suggests that the key to profitability and competitive advantage is to develop and maximize the use of human capital in a different way than competitors do (Barney, 1991; Crook, Todd, Combs, Woehr & Ketchen, 2011). The human capital theory thus, considers people as assets and stresses that the investment in people through training and development activities by organisations will bring worthwhile returns.

**Organisational Performance**

Performance is the achievement of specified task measured against predetermined or identified standards of accuracy, completeness, cost and speed (Ekundayo, 2015). Ahuja (1992) indicated that employee's performance is measured against the performance standards set by the organization and explained a number of measures that can be taken into consideration when measuring performance which includes productivity, efficiency, effectiveness, quality and profitability measures. Profitability is the ability to earn profits consistently over a period of time. It is expressed as the ratio of gross profit to sales or return on capital employed. Efficiency is the ability to produce the desired outcomes by using as minimal resources as possible while effectiveness is the ability of employees to meet the desired objectives or target. Productivity is expressed as a ratio of output to that of input (Stoner, Freeman & Gilbert, 1995). It is a measure of how the individual, organization and industry converts input resources into goods and services. That is, the measure of how much output is produced per unit of resources employed. Quality is the characteristic of products or services that bear an ability to satisfy the stated or implied needs (Kotler & Armstrong, 2002). It is increasingly achieving better products and services at a progressively more competitive price (Stoner, Freeman & Gilbert, 1995). Thus, going by the above discussions, it could be concluded that any success gained at attaining higher levels of these measures will be deemed performance. And just as noted by Draft (1988), it is the responsibility of company managers to ensure that their organizations strive to and thus achieve high performance levels. This can only be attained when managers set challenging but achievable goals and employee competencies have improved overtime. According to Wright and Geroy (2001), employee competencies change through effective training programs. It not only improves the overall performance of the employees to effectively perform the current job but also enhance the knowledge, skills and attitude of the workers necessary for the future job, thus contributing to superior organizational performance. Through training the employee competencies are developed and enable them to implement the job related work efficiently, and achieve firm objectives in a competitive manner.

**Training and Development of human Capital and Organisational Performance**

Human capital theory views education as a productive investment which is considered as equally or even equally more worthwhile than physical capital. Schultz (1971) cited in Hossain and Roy (2016) argued that education does not only improve the individual choices available to him; but that an educated population provides the type of labour force necessary for industrial development and economic growth. Keeley (2007) buttressed this by explaining that the human capital of individuals acts as a giant invisible hand that pushes economic resources towards their most productive use. Borrowing from the concepts of human capital and knowledge management, it suffices to state that some labour is more productive than others because more resources have been invested into the training of that labour, in the same manner that a machine that has had more resources invested into it is apt to be more productive (Mueller, 1982, as cited in Nishtha & Amit, 2010). Thus, people possess skills, experience and knowledge and therefore have economic value to organisations. These skills, knowledge and experience represent capital because they enhance productivity (Hossain & Roy, 2016).

It is well established that a firm’s investment in human capital has positive effect on productivity. Training and development has a positive impact on the employees to carry out their work more effectively, increasing their interpersonal and technical abilities, team work, job confidence and work motivation (Hutchings, Zhu, Cooper, Zhang & Shao, 2009). Rohan and Madhumita (2012) also supported that investing in training employees on decision making, teamwork, problem-solving and interpersonal relations has beneficial impact on the organizations’ level of growth, as well as impacting on employees’ performance. According to Tiwari (2014), on-the-job training has more long-lasting benefits and increases productivity by 16%; the productivity increase is over twice the size of wage increase caused by training. Moreover, more highly-educated and more highly skilled workers have been found not only to be able to adapt more rapidly and efficiently to new tasks and technologies, but also to be direct source of innovation. Human capital positively
impacts the individual, organization and society. Developed human capital become highly productive and its productivity effects on the organizations leads to an increase in individual and organizational revenue. Society as a whole consequently benefits because the standard of its people’s life improves due to higher income levels as a result of human capital. It is also well recognized that employees are most satisfied when they see tangible support, and they respond by increased productivity, commitment and willingness to go the extra ‘mile’ for the organization. Training affects employees’ behaviour and their working skills which results into employees enhanced performance as well as constructive changes (Satterfield & Hughes, 2007). Seleim, Ashour and Bonits (2007) found human capital indicators to be positively associated with performance. These indicators (such as training attended and team-work practices), they concluded, tended to result in superstar performers where more productivity were translated to organizational performance. Thus, they concluded that human capital indicators enhance organizational performance directly or indirectly.

Further, as indicated by Hossain and Roy (2016) human capital management is directly linked with productivity as the pace of an organization’s growth is inseparable from the rate its people grow. This is because knowledge, skills and abilities (KSAs) arising from education and experience, and embedded within human actors allow precise comprehension of various organizational functions and subsequent efficient execution of those functions within stipulated time-frames (Lahiri et al., 2012). It is therefore, a strategic imperative for organizations to nurture (train and develop) their employees for high productivity. Also, Ravi, Nishtha, Amit, Ram, and Alok (2013) found a significant positive impact of training on employee performance, in their study of human capital investments and performance of IT Industry. They concluded that a unit increase in training was linked to a 2.14 per cent increase in an employee’s performance. They further found that general training that an employee can utilize outside the local firms improves employee performance.Odho’n’g and Omolo (2015), also asserted that skills development is an important determinant of organizational performance. Their study found evidence of a statistically significant relationship between human capital investment and organizational performance. And concluded that the study variables of education, training, knowledge management and skills developments both have significant relationship with organizational performance. Finally, the Global Human Capital Trend (2015) indicated that companies that transform their learning and development organizations are not only able to accelerate skills development, but also can dramatically improve employee engagement and retention that impacts positively on organizational performance. Thus, investments in human capital, when carried out, demonstrate a commitment to employees, which is reciprocated. Such human resources initiatives contribute to reducing retention issues for the organization and enhance the culture of the organization, by addressing and resolving relevant issues whose outcomes result in increased competitive advantage, greater return on investments and actually, improve overall organizational performance (Nishtha & Amit, 2010).

III. Conclusion

The importance of investing in human capital through training and development has been established and further emphasised that it is key in enhancing organisational performance. That is to say that the developmental climate in an organization helps the individuals to utilize their potential properly and contribute to the achievement of the goals of the organization, and thereby ensuring optimization of human resources. The need for such initiatives results from the fact that organisations today find themselves in a knowledge-society that places greater emphasis on human capital as key to success. Hence, human capital investment becomes a tool for value creation and a form of human capital risk management strategy for sustainable organizational performance. Organizations that will succeed in this era therefore, will be those who manage their employees like the assets they are, through investments in training and development.

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