



# HOW PRODUCTIVITY CAN BE AFFECTED BY HUMAN CAPITAL

Mohamad Dzulfiqar Bin Rasli, Muhammad Zaki Mukhtar Bin Mohd Nor, Shahryar Sorooshian  
Faculty of Industrial Management,  
University Malaysia Pahang, Malaysia

Tan Seng Teck  
School of Business, INTI International College Subang,  
Malaysia

Md. Yusof Ismail  
Department of Manufacturing Engineering,  
International Islamic University Malaysia, Malaysia

**Abstract** — In this article we will discuss about how human resources management will affect the productivity. This article will tell about the meaning of human resource management and the meaning of productivity. We also tell the component in the human resource management such as training, incentive and reward that can give impact towards productivity of a company or organization.

**Keywords**— Human Resource, Human Resource Management, Productivity, Management

## I. INTRODUCTION

Human resources management is a new term for managing employment. Based on Chris Hendry [1], human resources means matching employment practices to an organization's strategy. Employment practices should combine together to reinforce one another. Reward system, the way promotion are made, who get trained and why, are type of human resource management. According to Alan Price [2], human resource management has become dominant approach to people management throughout much of the world. It has absorbed ideas and techniques from a wide range of theories and practical tools. Wright and McMahan defined strategic human resource management (SHRM) as "the pattern of planned human resource deployments and activity intended to enable an organization to achieve its goal [3]. Other definition of human resources management is division of company that focuses on activity related to employee. These activities normally include recruiting and hiring new employees, orientation and training of current employees, employee's benefits and retention.

Productivity means an economic measure of output per unit of input. Based on [4], traditional definition of productivity is the quantity of output in relation to the quantity of input, like time spent in order to produce the output. Inputs include labor and capital, while output is typically measured in revenues and other components such as business inventories. Productivity measures may be examined collectively (across the whole economy) or viewed industry by industry to examine trends in labor growth, wage levels and technological improvement. We found that there are some relationship between human resources and productivity. Little consensus exist amongst researchers regarding the specific practices to be included in the configuration of high performance human resource practices [5]. Human Resources Management includes incentive pay (individual and group) as well as many non-pay aspects of the employment relationship such as matching (hiring and firing) and work organization (e.g. teams, autonomy). Every organization is concerned about the level of work performance of its employees that can affect productivity. This is because the performance of employees is a major determinant of how successful an organization is in reaching its strategic goals [6]. We place Human Resources Management more generally within the literature on practices of productivity and management. We start with some facts on levels and trends of both Human Resource Management and productivity and the main economic theories of Human Resource Management. We study the determinants of Human Resource Management and competition, risk, regulation and ownership. The biggest slot analyzes the role of Human Resource Management on productivity emphasizing issues of data, methodology, and results. It is concluded with suggestions of avenues for future frontier work. In simple words, when the worker get enough training or get worthy



income, they will become more motivated to do the job, thus, eventually will increase the productivity.

## II. PROBLEM STATEMENT

The research purpose is to measure the linkage between the systems of High Performance Work Practices and the performance of the firm. The outcomes of the research are these practices will give impacts in the aspects of economic and significant statistic impacts on both intermediate employee outcomes such as productivity and turnover, long or short-term measures of performance of company and financial departments. Based on Mark A. Huselid, these results were taken from a thousand of firm in the country. Support for predictions that the impact of good Performance Work Practices on the company results is in part contingent on their interrelationships and links with strategy was limited [7]. For Lee Dyer & Todd Reeves, their studies were likely same as the research by Mark A. Huselid, which is focused on the links between human resources strategies and organizational effectiveness. The result says that the bundles and configuration of activities are the important elements in enhancing labor productivity than any single activity. However, the studies are theoretically limited, have quite small samples and mostly non-cumulative [8].

The capabilities of Human Resources Managers will give impacts to the effectiveness of Human Resources Management and the final impacts on corporate financial performance. As stated by Mark A. Huselid, Susan E. Jackson, and Randall S. Schuler, for a sum of 293 firms in United States, the capabilities and attribute of Human Resources staffs are very interrelated with firm effectiveness. The research conducted also found the relationships between Human Resources Management effectiveness and productivity, flow of cash and the market value. The finding was persistent across market and performance accounting measure and with correction of biases [9].

The productivity of a firm can also be affected by the amount of incentive pay been paid to the workers. In fact, it is one of the critical elements in Human Resources Management as well as many non-pay aspects of the employment relationship. The research conducted by Nicholas Bloom & John Van Reenen has proved the relationship between these two variables. They started their research with some facts on level and trends of Human Resources Management and the productivity and the main economic theories of Human Resources Management. They take a look at some of determinants of Human Resources Management which are risks, competition, ownership and regulation. However, the impact of emphasizing the issues of methodology, data and results from micro-economic studies is still cannot be proven so that the biggest section analyzes the role of the productivity of Human Resources Management [10].

A firm's human capital, as manifested by study, education and experience of the work forces, they are giving high impact to the productivity of a firm. This hypothesis was investigated by a research conducted by Sanjib Chowdhury et al. Their study predicts that the people with task-specific experiences are the core element for a small firm in finding the productivity. Based on data taken of the objective data from 1572 core-employees representing 100 small companies in two different industries, the study examines how two types of experience, which are firm-specific and task-specific interact with educations to influence productivity of the company. The output of the research was that the relationship between task-specific experiences and productivity is stronger in firms with highly educated employee than firms in lower educational level of employee. But, this research has a limitation which is it is difficult to find the experienced task-specific with highly educated person [11].

The knowledge of management capacity role in between strategic human resources practices and innovation performance can be examined through the knowledge-based view. A regression analysis sample was taken based on 146 firms to test the hypothesis. The outcome stated that the strategic human resources practices are highly related to knowledge management capacity which has a positive effect on innovation performance. The results from the research tell us that knowledge management capacity plays an important role between strategic human resource practices and innovation performance [12].

The purpose of studies conducted by Kit Brooks and Fredrick Muya Nafukho [13] was to show the integration between productivity in organization, human resource development, emotional intelligence and social capital. They found that it is logical to assume that the relationship among social capital, human resource development, emotional and productivity of organization is fully integrated. Anyway, there is still a limitation of this study which is the integrated model conceptualizing the dynamic relationship among human resource development, social capital, emotional intelligence, and organization productivity is based primarily on the review of the available literature and it is difficult to create measurement instruments that can show the contributions of each to organizational productivity.

Connection between perceived organizational performance and human resources management (as a competitive advantage source) in the European Union's private and different public sectors is studied in this research. Eleni T. Stavrou & Christakis Charalambous & Stelios Spiliotis's study is to utilize an innovative research methodology which is Kohonen's Self-Organizing Maps. Training and development practices were related strongly with performance in communication practices. While practices in these two sectors did not differ significantly, three overlapping human resource management models did not exist, each of which involved a different set of European Union's member states. The



limitation of the study is it is still could not develop specific parts of the maps and greater understanding of the specific differences among clusters and among countries within clusters [14].

A review of available literature on the relationship of human resources and organizational performance revealed a scarcity of contribution from human resource development in establishing the significant relationship between organization performance and human resource development. In this study, Meera Alagaraja, the researcher, stated that the review utilized organizational performance as the dependent variable to survey the state of human resource literature also includes contributions from human resource management. The literature review revealed similarities and differences in the conceptualization of organizational performance as a dependent variable between the two fields. The author declared the big issue of the research is the general and academic discourse on the effect of human resource function in organization continues to remain as undeveloped area [15].

Referring to the studies implemented by Rubina Mahsud & Gary Yukl & Gregory E. Prussia, they used flexible leadership theory as a main point to identify how far the prosperity and productivity of a firm's long-term financial depends on 3 performance determinants which are human capital, efficiency, and innovative adaptation. They compare the theoretical model with two alternative models using structural equation modeling. Results indicated that the effects of human capital on long-term financial performance were partially mediated by efficiency and innovative adaptation [16].

The study conducted by Mark A. Youndt, the study examines two alternative views which are universal and contingency of the human resources performance in manufacturing setting. A total of 97 plants do support the contingency approach in human resources management. A human resources system focused on human capital enhancement is directly driven to multiple dimensions of operational performance and productivity [17].

In the context of hospitality as studied in Spain, the hotels in the country's tourism firms need to be more competitive in order to continue attracting citizens from other countries and human resource strategies can help. The study aims to identify how human resource practices applied by hotels to improve the productivity. Those of the variables of interest related to human resource profile such as number of employees, employee nationality and sex and to human resource strategies (recruitment, hiring and training strategies). The limitation of this study is that the number of employees per establishment remains small, that the proportion of part-time and temporary workers is still high, that there is also a great diversity as far as employees' countries of origin are concerned and that, on the whole, the employee turnover rate is high and human resources management does not seem to be a competitive strategy in the hospitality industry [18].

This research is to identify whether human resource strategies are needed for maximizing the productivity and profitability of a dairy farm. The researcher used training, job descriptions, standard operating procedures, incentives in milk quality, and the employment of Spanish-speaking employees as the variables. The effects of individual human resources management practices were analyzed to test for means separation between groups that "used" and those that "did not use" human resources management practices. However, the results of the research implemented by R.E. Stup, J. Hyde and L.A. Holden were opposite and do not support expectations that differences exist between the groups [19].

For such a long time, there has been a considerable expansion in research and theory about performance and management of human capital. A research reviews the progress by identifying a series of phases in the development of relevant research and theory. It then sets some challenges for the future on issues of management processes theory and the research methods and approaches. The implication occurred in the mentioned research implemented by David E. Guest is that they were still unable to fully answer core questions about the relationship between performance and human resource management. This is eventually attributing to the limited research amount that is longitudinal and has been able to address the linkages between performance and human resource management [20].

Based on the theory of micro and macro level of human resource, they predict that investments in human resource generate better performance in firms. However, human capital will consume money and time to develop which might opposites its benefits. Indeed, tests available are still vague regarding its impact. The researcher, Crook et al found that human capital relates strongly to performance especially when the matters in human capital is not readily tradable in labor markets and when researchers use operational performance measures that are not beneficial to firm [21].

### III. DISCUSSION AND CONCLUSION

Human resources management is one of important department in an organization. The elements of human resources management include selection of employee, training, salary and motivation. The organization must select or hire a suitable person to do the task. Then give them training to make sure that they more expert to do the task. If there is new technology will be use, training is compulsory. After that pay them with suitable salary based on their performance.

Actually, the element of human resources management can give impact to the productivity. In other word, if the organization can practice the human resource management perfectly, the staff or worker will feel satisfied. So, they will increase their performance. When worker's performances are good, productivity will increase. Based on this article, we



suggest that every organization or company should practices high-performance human resource management.

#### IV. REFERENCE

- [1] C. Hendry, "Human Resource Management A Strategic Approach To Employment," Routledge, pp. 4, 2011, ISBN 075060994x
- [2] A. Price, "Human Resource Management fourth edition," Brendan George, pp. 3, 2007, ISBN:978-1-4080-3224-4
- [3] D. K. Datta, J. P. Guthrie, P. M. Wright, "Human Resource Management and Labor Productivity: Does Industry Matter?," Vol. 48, Iss. 1, pp. 135-136, 2005.
- [4] R. Erne, "What is Productivity in Knowledge Work? - A Cross-industrial View -," Vol. 17, Iss. 10, pp. 3, 2011.
- [5] L. Yun-Sun, S. Aryee, K. S. Law, "High-performance Human Resource Practices, Citizenship Behavior, and Organizational Performance: A Relational Perspective," Vol. 50, Iss. 3, pp. 558, 2007.
- [6] R. D. Gatewood, H. S. Feild, M. Barrick, "Human Resource Selection," Sixth Edition, Thomson South-Western, pp. 3, 2008, ISBN 13: 978-0-324-20728-6
- [7] M. A. Huselid, "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance," Academy of Management Journal, Vol. 38, Iss. 3, pp. 635-672, 1995.
- [8] L. Dyer, T. Reeves, "Human Resources Strategies and Firm Performance: what do we know and where do we need to go?," Vol. 6, Iss. 3, pp. 656-670, 1995.
- [9] M. A. Huselid, S. E. Jackson, R. S. Schuler, "Technical and Strategic Human Resources Management Effectiveness as Determinants of Firm Performance," Academy of Management Journal, Vol. 40, Iss. 1, pp. 171-188, 1997.
- [10] N. Bloom, J. V. Reenen, "Chapter 19 – Human Resource Management and Productivity," Elsevier B. V., Vol. 4, pp. 1697-1767, 2011.
- [11] S. Chowdhury, E. Schulz, M. Milner, D. V. De Voort, "Core Employee Based Human Capital and Revenue Productivity in small firms: An Empirical Investigation," Journal of Business Research, Vol. 67, Iss.11, pp. 2473-2479, 2014.
- [12] C. J. Chen, J. W. Huang, "Strategic Human Resource Practices and Innovation Performance — The mediating role of knowledge management capacity," Journal of Business Research, Elsevier Inc., Vol. 62, Iss. 1, pp. 104-114, 2007.
- [13] K. Brooks, F. M. Nafukho, "Human resource development, social capital, emotional intelligence: Any link to productivity?" Journal of European Industrial Training, Vol. 30, Iss. 2, pp. 117-128, 2006.
- [14] E. T. Stavrou, C. Charalambous, S. Spiliotis, "Human resource management and performance: A neural network analysis," European Journal of Operational Research, Elsevier Inc., Vol. 181, Iss. 1, pp. 453-467, 2006.
- [15] M. Alagaraja, "HRD and HRM Perspectives on Organizational Performance," Human Resources Development Review, Sage Publications, Vol. 12, Iss. 2, pp. 117-143, 2013.
- [16] R. Mahsud, G. Yukl, G. E. Prussia, "Human Capital, Efficiency, and Innovative Adaptation as Strategic Determinants of Firm Performance," Sage Journal, Vol. 18, Iss. 2, pp. 229-246, 2011.
- [17] M. A. Youndt, S. A. Snell, J. W. Dean Jr., D. P. Lepak, "Human Resource Management, Manufacturing Strategy, and Firm Performance," Academy of Management Journal, Vol. 39, Iss. 4, pp. 836-866, 1996.
- [18] B. Marco-Lajara, M. Úbeda-García, "Human resource management approaches in Spanish hotels: An introductory analysis," International Journal of Hospitality Management, Elsevier Inc., Vol. 35, pp. 339-347, 2013.
- [19] R.E. Stup, J. Hyde and L.A. Holden, "Relationships Between Selected Human Resource Management Practices and Dairy Farm Performance," Journal of Dairy Science, Elsevier Inc., Vol. 89, Iss. 3, pp. 1116-1120, 2006.
- [20] D. E. Guest, "Human resource management and performance: still searching for some answers," Human Resource Management Journal, Vol. 21, Iss. 1, pp. 3-13, 2011.
- [21] R. T. Crook, S. Y. Todd, J. G. Combs, D. J. Woehr, D. J. Ketchen Jr., "Does human capital matter? A meta-analysis of the relationship between human capital and firm performance," Journal of Applied Psychology, Vol. 96, Iss. 3, pp. 443-456, 2011.