Exploring Elements of Human Capital Development and Firm Performance in the Financial Services Industry

Via Irhamny Az-Zahra and Dina Nurdiani Sapitri
Universitas Pendidikan Indonesia, Jl. Dr. Setiabudi No. 229, Bandung, Indonesia
viairazzahra@student.upi.edu, dinanurdianis@gmail.com

Keywords: Flexibility, Adaptability, Competencies, Development of Organizational Competencies, Individual Employability, Human Capital, Firm Performance.

Abstract: The purpose of this study is to examine the relationship between the elements of human capital with firm performance. The elements that are expected to affect firm performance in financial services industry are competence, flexibility, adaptability, development of organizational competencies, and individual employability. Each component of the elements has different role in creating company’s human capital that will determine the firm performance. The research uses a qualitative approach in which in-depth interviews were performed to gain insights from top-level managers of the studied companies. Cross-case study analysis was carried out to analyze the data. The results indicate that the five elements in human capital have a significant and substantive influence on firm performance.

1 INTRODUCTION

The knowledge-based economy era highlights the pursuit of new types of capital by companies, namely human capital (HC). HC refers to the knowledges, competencies, skills and other personal characteristics acquired through individual’s way of life which are then utilized for production of goods and service. Thus, it can be said that human capital affects organizations’ growth and sustainability more than other resources (Hassan et al., 2017). Human Capital Theory was developed by Becker (1964) who views trainings to improve human capital as another form of capital, thus expenditures on it should be viewed as an investment with valuable returns as opposed to a simple cost. Wernerfelt (in Juwita and Anggraeni, 2007) also included human capital as one of the most useful resources to maintain competitive advantage (Juwita, Anggraeni; 2007). According to the theory of modern growth, the accumulation of human capital is an important contributor to economic growth. A numerous cross-country research has extensively explored the significant contribution of educational attainment to overall output production in the economy (Soon, 2010). In general, human capital is associated with skills and expertise of a person in an organization.

The argument in the related researches is that the current and potential human resources are an important consideration in company’s development as well as the implementation of the organization’s strategic business plan. Human capital-based performance assessment is an interesting approach that needs to be developed by companies. Human capital is one of the main components of company’s intellectual capital (intangible assets). To date, the assessment of firm performance mostly done based on company’s physical resources (tangible assets). According to Mayo (in Hakooma and Seshamani, 2017), measuring firm performance from a financial perspective is very accurate, but in fact, the basic driver of the financial value is the human resources (human capital) with all the knowledge, ideas, and innovations they provide. Furthermore, human capital is also the core of a company. Thus, human capital can be understood as the skills, knowledge, and abilities possessed by all peoples and those needed in the labor market for the production of goods and services (Hakooma and Seshamani, 2017).

The belief that the performance of individual employees has implications for company-level results has been prevalent among academics and practitioners for years. The interest in the field has recently intensified, however, as scientists have...
begun to argue that, collectively, company employees can additionally provide a unique source of competitive advantage that is difficult for competitors to emulate. For instance, Wright and McMahan (in Marimuthu et al., 2009), with the reference to the theory of resource-based company Barney in 1991, argue that human resources can provide a sustainable source of competitive advantage when the four basic requirements are met. Human capital provides added value to company’s production process at individual level while at the same time plays an important role in strategic planning, namely in creating competitive advantage at organizational level (Marimuthu et al., 2009).

The financial services industry has undergone dramatic changes in the last decade, with structural and technological advances that put pressure on top management to rethink their business strategy. Financial globalization, increasingly fierce competition, the development of Information and Communication Technology (ICT), and deregulation and regulation are the main drivers of the change (Cabrita, 2008). In response to these changes, most companies have embraced the concept in which human capital plays a role as a competitive advantage that will lead to higher performance. Human resource development has become a part of the overall effort to achieve cost-effective performance as well as firm performance. Therefore, companies need to understand human capital in order to increase employee satisfaction, which consequently will lead to better performance (Marimuthu et al., 2009).

Research conducted by Garavan et al., (2001) indicates that human capital has four main attributes, namely: (1) flexibility and adaptability, (2) competencies, (3) development of organizational competencies, and (4) individual employability. The research shows that these attributes in turn generate added value for individual as well as organizational outcomes. Finally, due to relational capital, there are empirical evidences which display that employee satisfaction, motivation and commitment have positive impacts on employee satisfaction, loyalty and retention, leading to higher corporate productivity (Kaplan and Norton, 1996; Horibe, 1999). Researchers generally agree that the rejuvenation of intellectual capital within the firm requires a feeling of relational equality in order to protect the organization from market obsolescence (Håkansson and Snehota, 1995; Gibbert, Leibold and Voelpel, 2001). Roos et. Al. (1997) argue that employees produce ICs through their intellectual competence, attitudes and agility. Bontis and Chua (2000) state that competence includes skills and education, while attitudes include employee's behavioral elements.

2 METHODOLOGIES

The study uses a case study approach with the aim to develop more specific Human Capital elements in financial services industry. Case studies specifically focus on a certain phenomenon that provide an in-depth understanding of a particular event. The study took place in four different private financial services companies in Garut. The interview sessions in this study were conducted between July and September 2017. The four financial services companies were selected for the reason that the four companies ranked in local’s top five financial services companies. The financial services companies were established and operated for over seven years.

The analytical unit of this research is top-level managers such as senior managers who are responsible for designing and managing companies’ strategies and operations. Their assessments and suggestions regarding the variables that should be included in Human Capital factors as well as their impacts on firm performance will be considered to be the most relevant answer of this research. It takes about 90 minutes to conduct the informal interviews.

The population of this study is the top-level managers of the four financial services companies mentioned before. The study sample consists of a total of nine individual respondents. Kiran (2008) argues that nine is considered to be a sufficient number of sample for a small-scale study. There is no exact number or range of cases that can be used as a guide for researchers, indicating that there are no established rules regarding the sample sizes in qualitative research (Hassan, Saleh, Kamaluddin and Hamzah: 2017).

Table 1: List of financial service industry and interviewees involved.

<table>
<thead>
<tr>
<th>Employees interviewed</th>
<th>Chief executive officer (CEO)</th>
<th>Chief operating officer (COO)</th>
<th>Human capital / human resources manager</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSC A</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>FSC B</td>
<td></td>
<td>1</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>FSC C</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>FSC D</td>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
</tbody>
</table>

Source : own resource, 2017
The top-level managers interviewed in Financial Services Company A and C are the CEOs of the companies. CEOs occupy the highest positions in the company, their primary responsibility is to manage the overall operations and resources including strategic decision making. Thus, a single CEO representation is considered to be sufficient to provide the information and assessment required in this study. Due to unfortunate clash in the schedule, COO and HRM representatives of Financial Services Company B were interviewed in place of the CEO of the company. Finally, two HRM representatives of Financial Services Company D were interviewed to gain some insights from the company. The interview was conducted directly. All of the informations provided are sufficient to answer the semi-structured questionairies which were compiled based on literature review. The participants further ensure that the data provided will not be used for any purpose other than this research and that the confidentiality of the data will be kept.

3 RESULTS AND DISCUSSION

As elaborate as the elements of Human Capital can be, the Human Capital can basically be seen as the driving wheel of the organization, thus signify its importance. The results of the interviews indicate that the respondents consider Competencies and the Development of Organizational Competencies as human capital elements that play important roles in firm performance. The main objective of financial services industry is to achieve customer satisfaction which will influence firm performance. Thus, the respondents believe that employees’ soft skills in the field of communication is a valuable competence that will better support their work. The findings of this study indicate that companies in financial services industry do not demand a corresponding educational background with the field of the companies. In regards to customer service staffs, companies put more emphasis on good communication skill as well as employees adeptness and creativity in understanding and providing informations about savings and loan services provided by the companies. Daily morning briefing and monthly evaluation are performed regularly to measure how far the employees achieve the expected performance. As stated in the interview:

“... our main focus is the amiability of the employees towards both the old and new customers...”

“... improvising employees in communicating has became company’s main service to hone employees’ soft skills ...

“... the ability to adapt to new people poses a challenge for the employees; the employees are expected to appear like he or she has known the customers for a long time ...”

As for the staffs who work as tellers, owing to the fact that they directly deal with the system as well as companies’ financial statements, they are expected to have the basic computer skills needed, even if they don’t have the educational background of the discipline. Several cases of human error can be immediately identified through monthly evaluations as well as informal reports in the daily briefing.

“... the analysis and its accuracy in transaction process become an important point for employees owing to the fact that they will be faced with unbalanced amount of money when they make any mistake ...”

Nevertheless, the companies do not impose different operational hours for different position. All of the employees work with the same working hours (Monday to Friday, from 8 am to 2 pm) while in case of overtime, the employee will get compensation in the form of overtime pay.

“... we value employees who prioritize their time and thus spur other employees to be more disciplined ...”

Other findings of the study show that employees receive educations and trainings in regards of related themes. In addition to honing individuals’ capability, the company also expect to dig the employees competence deeper so that they can improve firm performance. The four companies impose sustainable training programs and are deeply committed to the long-term career development of their employees. The companies provide their employees with facilities as well as leeways for employees who wish to continue their education to a higher level without diminishing any of their rights as employees, as long as the employees do not neglect his/her responsibilities.

“... the obligation of the employees is to get their job done on time without leaving any work for the day after, this is one of the expected impacts of the training programs imposed to the employees...”

The companies realize that not all of their customers can position themselves as their partners, some of their clients - for instance - position themselves as kings. Consequently, there are times when customers would expect to be served in employees’ break or lunch time.
“... there are times when we find ourselves in that kind of situation and we will just proceed the transaction as a solution ...”.

As companies that engage in the financial services industry, the performance of the companies is not only measured from the performance of the human capital, but also from the cash turnover of the company. Credit transactions, among others, is one of the products that made this financial services industry. It is not unusual for the employees to be challenged by customers who do not make their payments in due time. “... here the flexibility of the employees will be tested...”

The results of this study show that human capital plays an important role in the financial services industry. The results of the interviews indicate that the four companies provide their employees with opportunities to develop their competencies, some amount of freedom to move, and supports from senior managers. Feedback earned by the companies for the provisions mentioned is the increased feeling of happiness and productivity of the employees, marked by the completion of all the work on time which positively impact firm performance. On the selection process, the companies are not only focused on candidates’ high competencies, but also give emphasize to the strong desire of the individuals to improve their ability, skills, and adaptability to exercise the elements of human capital they possess. Some companies have proven the feasibility of the principles regardless the difficulty. Leaders are not expected to execute all the tasks of the company in solitary, but to take the steps needed so that the employees can overcome the obstacles in work and complete all the tasks together in accordance with the work portion of each field. Nevertheless, the companies should established a particular standard to manage the human capital elements to prevent superficial understanding that will lead to hasty decisions and policies as well as exploring the elements in order to produce superior resources and maintain their places as local’s four best financial services companies.

3.1 Cross Case Analysis for the Development of HC Elements in Financial Service Industry

The results and data analysis of this study indicate the existence of the companies’ efforts to develop the basic elements possessed by their employees.

| Table 2: Human capital elements for each financial service industry. |
|-----------------------------|-----------------------------|-----------------------------|----------------------------- |
| FSI A | FSI B | FSI C | FSI D |
| Flexibility: Employees’ readiness to face changes in company policy | Flexibility: Employees’ ability to keep up with organization development. | Flexibility: Employees’ readiness to face the decisions taken by management that require employees to quickly adjust. | Flexibility: Employees’ readiness to be transferred. |
| Adaptability: Is an important element for employees who work as frontlines. | Adaptability: Is an important element, especially for dealing with new customers? | Adaptability: Should be balanced with good communication. | Adaptability: Is a favourable element that can be valuable for employees in regards to their monthly evaluation? |
| Competencies: Employees’ literacy as well as their computer ability. | Competencies: Employees’ basic financial literacy as well as their improvement in accordance with the trainings given by the company. | Competencies: Is an important element that differs depends on employees’ responsibilities? | Competencies: Favour employees with work experience in the field. |
| Development of Organizational Competencies: Employees’ capability to understand the basic of their colleague’s works that leads to the ability to cover their colleagues absent. | Development of Organizational Competencies: The obligation to finish their tasks on time. | Development of Organizational Competencies: Employees’ multitasking capability. | Development of Organizational Competencies: Employees’ ability to give their contributions to the company, i.e. the ability to compile rules of work discipline. |
| Individual Employability: Employees’ capability to deal with the individual | Individual Employability: Employees’ capability to deal | Individual Employability: Employees’ loyalty as well as their sense of | Individual Employability: Attendance in internal |
The companies, in particular, emphasize the importance of Competencies as well as the Development of Organizational Competencies attributes. The development of these elements will develops employees' potentials that will assist them to improve their careers as well as improving firm performance.

4 CONCLUSIONS

The results of this study indicates a significant and substantive relationship between human capital and firm performance. Furthermore, the elements of human capital is shown to encourage the employees to improve firm performance. The elements of human capital development such as education, training, work experience, and human resource management must be in accordance with the government agenda. The findings of this study may not be able to perfectly represent the entire population as it was done in a limited sample size; thus limit the generalizability of the study (Gillies, 1998, Hassan, Saleh, Kamaluddin and Hamzah: 2017).

REFERENCES


