IMPACT OF ORGANIZATIONAL HUMAN CAPITAL ON ORGANIZATIONAL PERFORMANCE

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ABSTRACT

This study has investigated the impact of organizational human capital on perceived organizational performance. A research model has been developed based on the previous research studies in this area. A questionnaire survey method has been used for data collection and a sample of 237 employees working in various organizations at the executive level was selected. Minimum qualification of those employees was graduation. 19 factors questionnaire was adopted to check the influence. Two step regression was applied to test the impact of independent variable on the dependent variable. A moderating variable of organizational knowledge sharing practices is also used. Research findings indicate that organizational human capital has its positive and significant impact on organizational performance and organizational knowledge sharing practices is having negative relationship with organizational performance. It indicates that in country like Pakistan organizational knowledge sharing practices is a source of decreasing organizational performance. Moreover, moderating role of organizational knowledge sharing practices is not evident in this study.

Key Words: Knowledge sharing practices, human capital, organizational performance, employees competencies

1. INTRODUCTION

Implications of organizational performance have been emphasizing on the importance of knowledge sharing practices in organizations (Widen-Wuff & Soumi.2007) but getting knowledge from some colleagues is not an easy task. (Constant, Sproull, & Kiesler, 1996). So, the process of sharing knowledge remains most of the time unsuccessful within organizational setup and resultantly performance of organization does not improve. In order to improve organizational performance through knowledge sharing process systematically, intervention at managerial level is strongly recommended (Hsu, 2006; Husted & Michailova, 2002). In spite of wide spreading importance of knowledge sharing practices for organizational performance, there is still insufficient level of empirical research in this area and this study has been conducted to fill this gap in the existing literature.

It is evident from various research studies that organizational performance cannot be directly improved with the help of knowledge sharing practices in organizations. It can rather be improved with the help of intermediating role of outcomes after the
implementation of organizational knowledge sharing practices. (Sabherwal & Bercerra-Fernandez, 2003) and understanding of such causal relationship is the major objective of this study. In order to make knowledge sharing practices more effective in organizational set up, an organization will have to develop its human capital i.e. competencies of its human resources. It can be developed with the help of knowledge exchange and transfer. (Widen-Wulff & Soumi, 2007).

Once an organization has developed its human capital, it will lead to an increase in its job performance which will ultimately lead to improvement in organizational performance with the help of new, up dated and relevant knowledge. We have developed and investigated an organizational knowledge sharing model in this paper. This model explains how knowledge sharing practices lead towards organizational performance through the intermediating role of human capital. Although, relationship of organizational knowledge sharing practices and development of human capital is already evident (Bartlett & Ghoshal, 2002), but the relationship of knowledge sharing practices with development of organizational human capital has not yet been examined. Finally, knowledge and understanding of each and every factor which have its influence in the organization must be realistically understood, if we wish the development of better human capital through the assistance of effective knowledge sharing practices in organizations. (Demarest,1997; Malhotra,2004; ODell & Grayson, 1999). Understanding of these factors is necessary because, they provide base line or stating point for improvement of knowledge sharing practices in organizations. (Holsapple & Joshi, 2000; Lee & Choi, 2003).

2. LITERATURE REVIEW

Competency based perspective of human capital in organizations have been adopted and prevailing in its definition in the literature. (Elias & Scarbrough, 2004). Flamholtz and Lacey (1981) have given emphasis on skill of organizational workers while explaining their theory regarding human capital. Later on, this definition of development of human capital has been expanded by the researchers and they have included in this notion other qualities of employees as well like their knowledge, their skill and such capabilities which become the source of difference in organizations (Youndt et al., 2004). So, keeping in view the competence based attributes of human capital, the focal point of this definitional perspective is the contribution which is made by human beings in the organizations in order to enhance the organizational results positively. Following the same pattern, conceptual definition of human capital in the organizations has been taken here based on competencies of human beings working in organizations. Job performance of employees can be increased by increasing their level of competencies (Becerra-Fernandez & Sabherwal, 2001). Increase in job performance may also be helpful in increasing organizational financial performance (Davenport et al., 1998).

According to De Saa-Perez and García-Falcon (2002) as human being have different level of knowledge, capabilities and skill and their importance for organizational out comes is also admired, so with the help of better strategies and managerial practices, they can be easily controlled. It is not easy to find such human resource which can provide guaranteed higher performance. Due to this reason, availability of suitable human capital is very rare. Information asymmetry is also one of its reasons in the job market. It is important to note that the way in which human beings working in organizations with various type of skills and competencies are aligned to organizations is not uniform across various organizations and it makes organizational human resource as very special. Importance of developing organization human capital is recognized by these theoretical arguments. Moreover current studies are also examining that there exists relationship between human capital and financial performance of organizations It has been found that higher level of financial nature performance of organizations is attached with higher and better organizational human capital (Youndt et.al., 2004).
(Nonaka & Takeuchi 1995) have defined organizational knowledge as “justified true belief.” It is dissemination of information within an organization which has been proved validated and authenticated through empirical test. (Liebeskend, 1996). Organizational members can seek guidance in their judgment by using this information (Tsoukas & Vladimirou, 2001). The performance of organizational members can thus be improved and resultantly it helps to create competitive advantage for organizations (Hsu, 2006).

Organizational knowledge sharing practices deal with transfer or exchange of knowledge among different persons or group of persons in an organization. Persons working in organization are linked with sources of external knowledge due to these knowledge sharing practices (Garvin, 1993). These sources of external knowledge are helpful for seeking new information, expertise and ideas which cannot be obtained internally within organization and thus this networking can be beneficial to organizational members. (Hamal & Parahalad, 1993; Wasko & Faraj, 2005). This process of learning from external network connections established across the boundaries of organizations and exchange of knowledge through such networks can result innovations within organizations (Novteboom, 2000).

Moreover, knowledge sharing practices in organizations assists in development of competency increasing knowledge within organizations and among various individuals working in those organizations. Interpersonal relationships in a community where knowledge sharing practices are prevailing are very strong among the members of that community due to collective based problem diagnosis and their resolution. (Wenger & Snyder, 2000). It immediately provides benefits through increasing effectiveness of organizational tasks (Sabherwal & Bercerra Fernandez, 2003) and innovativeness of individuals in the organization (Calantone, Cavusgil & Zhao, 2002). Consequently, the development of human capital in the organization is due to effective practices of knowledge sharing in the organizations (Liebowitz, 2004).

These practices enhance abilities, knowledge and skill of organizational employees. Lessons learnt from the previous failures of organization should be disseminated by the organization to its members (Calantone et. al, 2002). Enhancement of members expertise and tacit knowledge exchange can be made through interdependent arrangements like team development in an organization (Becker, 1964; Lepak & Snell, 1999). Training and development program are also part of knowledge sharing practices in the organizations (Becker, 1976; Liebowitz, 1999). It also includes mentoring program which increase idiosyncratic knowledge of working individuals and thus makes the organization more valuable and competitive than its competitors (Lepak & Snell, 1999). Alvi & Leidner, 2001) have highlighted the importance of information technology for effective knowledge sharing practices of organizations. Lastly, incentive system should be used to increase its benefits which are measured by equations of cost-benefit as mentioned in social exchange theory. It can be said that encouragement of organizational knowledge sharing practices ultimately assists in the development of human capital.

3. MODEL FOR IMPACT OF ORGANIZATIONAL HUMAN CAPITAL ON ORGANIZATIONAL PERFORMANCE

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  Organization Human Capital  
      ↓                         ↓
Organization Knowledge sharing practices  
      ↓                         ↓
Organizational Performance
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4. RESEARCH METHODOLOGY

Organizational human capital has been selected as an independent variable and perceived organizational performance has been taken as dependent variable. Moreover, one moderating variable of organizational knowledge sharing practices has also been used in this study. 19 items (SEE APPENDIX) questionnaire has been adopted to test the relationship between organizational performance and organizational human capital. 6 items have been selected for each of the variables i.e. organizational human capital and organizational performance and 7 items have been selected for organizational knowledge sharing practices. The five-point Likert scale ranging from extremely disagreed “1” to extremely agreed “5” has been used through out the questionnaire. Five control variables (Gender, Education, Marital Status, Income and Age) are also included in this study.

To examine the moderating role of organizational knowledge sharing practices between organizational human capital and organizational performance, we have utilized questionnaire approach. Survey data from 237 employees working in various organizations were collected through distribution of questionnaires to them. Respondents were of different age, gender, organizational position, marital status, income and education. Any how, minimum educational level of 98 percent of respondents was graduation and minimum level of their organizational status was assistant managers/executives. Out of these respondents, 219 were male and 18 were female.

Out of total number of respondents, 174 were married and 63 were single. In order to be included in this study, it was necessary that respondents should have adequate exposure about organizational performance, organizational human capital and intermediating role of knowledge sharing practices. With regard to role of organizational human capital to influence organizational performance, more than 80 percent of the respondents on the average were “agreed” on all the six factors included in the questionnaire to predict the said influence. 75 percent of the respondents on the average were on the “agreed”with regard to organizational performance factors by the 6 items included in the questionnaire. More than 85 percent of the respondents were “agreed” on the 7 factors about prediction of role of organizational knowledge sharing practices.

5. RESULTS AND DISCUSSION

Average response of employees to 19 factors of evaluating the impact of organizational human capital on organizational performance through moderating role of organizational knowledge sharing practices. It is evident that mean value of employees' response in this study is greater than 3 which indicate that on the average employees' response to this study is on “agreed” side.

In the first phase of regression analysis, table 1 revealed the regression results of organizational human capital, organizational knowledge sharing practices and perceived organizational performance taking first two as independent variables and the third one as dependent variable. According to the analysis, t statistic value of -2.88 indicates that independent variable of organizational knowledge sharing practices significantly affects the dependent variables but their relationship is negative. This negative result indicates that in country like Pakistan, organizational knowledge sharing practices adversely affect organizational performance. But, coefficient of organizational human capital is positive with value of 7.558 indicating that this variable affects the organizational performance positively. Moreover, the value of Adjusted R Square explains these results by about 19% and p value of 0.004 is also within the significant range.

In the second phase of analysis, regression effect between the products of independent variable organizational human capital, moderating variable organizational knowledge sharing practices and dependent variable organizational performance has been analyzed in table 2. It means both the variables of product have been taken as independent variable. Relationship between independent and dependent variables is positive and significant as revealed by the value of t statistics i.e., 3.972 but the value of Adjusted R Square has
decreased. This decrease in the value of Adjusted R Square from 0.191 to 0.059 revealed that organizational knowledge sharing practices have no moderating effect on the relationship between organizational human capital and organizational human performance.

6- CONCLUSION

In this study, we have attempted to find out linkage between organizational human capital and organizational performance with the moderating role of knowledge sharing practices in the organizations. Research findings indicated that in country like Pakistan, organizational knowledge sharing practices do not moderate the relationship between organizational human capital and perceived organizational performance, rather it affects the perceived performance negatively. Moreover, impact of organizational human capital on organizational performance is evident because positive and significant relationship between them is found to exist in this study. Another interesting behavior of employees is seen during the survey of this study that the questions which were related to their own attributes with in the organization were mostly answered with higher rating towards positive side. It indicates their biasness to answer those questions which were related to their own contribution or performance in the organizational setup. This study can be helpful to the practitioners and managers in the organizations. It can be further extended in future by enlarging sample size and incorporating other variables which are attributable to organizational performance.

Table 1 Regression results of organizational knowledge sharing practices, organizational human capital and perceived performance

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a Dependent Variable: Percieved performance

Table 2 Regression results between product of organizational knowledge sharing practices, organizational human capital and perceived performance

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a Dependent Variable: Percieved performance
REFERENCES


**APPENDIX**

**Organizational knowledge sharing practices**

1. The company uses senior personnel to mentor junior employees.
2. The company groups employees in work teams.
3. The company analyzes its past failure and disseminates the lessons learned among its employees.
4. The company invests in IT systems that facilitate knowledge sharing.
5. The company develops knowledge sharing mechanisms.
6. The company offers incentives to encourage knowledge sharing.
7. The company offers a variety of training and development programs.

**Organizational human capital**

1. The company’s employees identify themselves with company values and vision.
2. The company’s employees exert their best efforts to achieve organizational goals and objectives.
3. The company’s employees are better than those of competitors at innovation and R&D.
4. The company’s employees are better than those of competitors at reducing the company’s operating costs.
5. The company’s employees are better than those of competitors at responding to customer demands.
6. The company’s employees outperform those of competitors.

**Perceived performance**

1. The company has higher long-run profitability than its competitors.
2. The company has higher growth prospect in sales than its competitors.
3. The company’s employees have higher job satisfaction than those of competitors.
4. The company’s employees have higher productivity than those of competitors.
5. The company has better goodwill than its competitors.
6. The company has better quality products or services than its competitors.