Investing in human resource development: Empirical evidence from banking institutions of Malaysia and Nigeria

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Abstract
Human resource development in recent times surpasses other factors as a source of competitive advantage especially for corporate organizations challenged by globalization and advancements in technology. This fact has been widely upheld by investigations but little scholarly attention emphasizes the effect of organization's investment in human resource development and the likely impact on its subsequent performance. In view of this gap, this paper aims to answer to the questions what is the relevance of investing in human resource development and how does investing in human resource development affect the performance of banks? Using the cross-country data from the banking institutions of Malaysia and Nigeria analyzed via the regression method. The results confirm that a significant and positive relationship exists between investment in human resources and banks performance for both economies hence increasing their investments in the development of their human resource was recommended.
Keywords: human resource development, investment, banking, Malaysia, Nigeria

1. Introduction

Following the world financial crisis, most economies including those of Malaysia and Nigeria intensified measures in their various financial sectors in order to make them stronger, integrative, vibrant, diversified and efficient. To this end, Olayemi (2012:298) stated that, effective investment in human capital is a key component of long run economic growth and improved productivity. Hence, their quest for an important source of efficiency, and competitive advantage associated with improved corporate performance directs them to develop their human resources. Human resource development (HRD) is an age-old concept and the term human resources always referred to the human inputs in any production process. It is an important if not vital component of production which can be influenced, designed, shaped, and improved through learning, education, coaching, counseling, training and development activities to perform or function in any production or management process along with other factors such as land, labor and capital. Harbison and Meyers, 1964 referred to formal education, on the job training, self-development, improvement in health and improvement in nutrition as the five main ways of developing human resources (SAARC Human Resource Development Centre). While Syrian, (1997) viewed HRD as encompassing wide range of subjects such as health care, nutrition, population control, education and training. This study will utilize the term HRD to cover some selected ways for developing human resources as they relate with the banking environment.
On grounds of heightened value of human resources, HRD has permeated corporate organizational systems as a vital pillar for developing human resource capacity because the effectiveness of a service-based industry such as banking depends to a high extent on professionalism. The need for banking organizations to develop their human resource capacity to survive modern business challenges has also become paramount. The increasing number of organizations exploring HRD for possibilities of developing those capabilities has intensified the argument that HRD should be considered a vital task for modern (banking) corporations towards performance enhancement. The modern business environment has become volatile and the operating landscape is changing thus, globalization, advancement in technology (Benjamin, 2012: 110; De Saa-Perez & Garcia-Falcon, 2002: 127), building organizational capability, and transformations (Benjamin, 2012: 110) have become important factors challenging players in the global economy, which calls for the constant review of the skills, knowledge and capabilities of bank employees.

Previous studies (eg. Jan *et al.*, 2013; Marimuthu *et al.*, 2009) substantially buttressed the importance of investing in developing human resources by discourse. However, there still exists a dearth in literature committed to the examination of the applications of the human capital theory empirically. This study therefore seeks to test this assumption empirically by considering cross-country data from Malaysia and Nigeria over the period 2005-2011. This paper argues in favour of investing in human resource development activities as a pre-requisite for improved organizational performance, hence emerging questions, what is the importance/relevance of investing in human resources? Is there any relationship between investment in HRD and performance of banks? How does investing in HRD impact on performance of banks?

In this study, focus emphasizes and prefers on human resource development because it is a process, which is broad and continuous usually strategically aligned to unique organizational objectives thereby minimizing considerably the possibility of losing employees. This is because skills acquired and competences developed may not be applicable to the developmental framework of competitors. Developing banks human resources can affect their financial assets in terms of the direct or indirect costs, which they incur. These costs incurred on human capital development usually translate to investment that the banks could recoup with benefits in the long run.

This paper therefore, assesses the investment in HRD by banking institutions of Malaysia and Nigeria. Interest in these nations arises from Nigeria's recent effort to develop non-interest banking (CBN, 2008:78) in addition to the significant memorandum of understanding signed between Central Bank of Nigeria and Bank Negara Malaysia in March 2010 inter alia to share expertise and exchange relevant information on banking supervision, talent management, corporate strategy etc (CBN, 2010:162). The primary significance of this study is in its feat to test an existing theory on investment in human resource development empirically as a response to Levin's (1989) statement indicating lack of empirical economic analysis to the area of human capital theory applications. It is therefore important because it updates information on level of investment in human resources of banks across two continents, which can foster the possibility of increased trade relations between the two countries. This is because it brings to fore evidence significant for both economies to pursue economic relations by increasing international investments to each other as this enables increased diversification into non-ringgit and non-naira investments while each economy develops and expands its domestic banks' foreign currency business, thereby diversifying the boundaries of modern finance.

Following this introduction, the second section discusses the theoretical lineage for the study, importance of human resource development and the importance of investing in human resource development. The third section presents the methodology and data for the study while, section four dwells on a discussion of the results, and finally the conclusion follows in section five.

2. Literature Review

2.1 Human Capital Theory

The human capital theory suggests that individuals and society derive economic benefits from investments in people (Sweetland, 1996:341). The human capital theory as propounded by early economists constitutes the theoretical root for the current study to examine the relevance of investing in human resources. The origin of human capital goes back to the emergence of classical economics in 1776 (Dae-Bong, 2009:3). Since then there has been monumental interest in the area of human capital as a concept and as theory. According to Olaniyan & Okemakinde (2008: 158) who based their argument upon the work of Schultz (1971), Sakamota and Powers (1995), Psacharopoulos and Woodhall (1997), human capital theory rests on the assumption that formal education is highly instrumental and even necessary to improve the production capacity of a population. In short, the human capital theorists argue that an educated population is a productive population. To them, human capital theory emphasizes how education increases the productivity and efficiency of workers by increasing the level of cognitive stock of economically productive human capability, which is a product of innate abilities and investment in human beings. The provision of formal education is seen as a productive investment in human capital, which the proponents of the theory have considered as equally or even more equally worthwhile than that of physical capital.

Dae-Bong, (2009:3) mentioned three viewpoints of categorizing human capital, which based on the individual aspect, on human capital itself and the accumulation process of it, and on the production-oriented perspective of human capital. Considering the production-oriented perspective, the human capital is 'the stock of skills and knowledge embodied in the ability to perform labour so as to produce economic value' (Sheffin, 2003) in Dae-Bong (2009:4). Thus, human capital refers to the knowledge, education, experience and skills as the primary source of the employee's productivity for both individual and organizational development. This referral guarantees a basis upon which to examine and analyze human resources generally within the economy and specifically within the banking industry.

2.2 Importance of Human Resource Development

According to Singh & Mohanty (2012: 87)"Organizations maintain a blurred position regarding investment in training. They generally accept training as an important means to improve employee productivity, which ultimately leads to organizational productivity and effectiveness, a present demand for all organizations.

However, in practice, they usually face this challenge with cost control including training practices expenditure. This situation can be explained by the fact that organizations do not understand how investments in training can provide value". The relevance of HRD is evident in the increasing number of organizations exploring HRD for help in developing the capacity to survive the challenges of globalization and technological advancements. In that, respect Durkovic, (2009), observed that, nowadays, enterprises are turned to the intangible and invisible capital, named intellectual capital. She explained that, productive tangible assets like raw materials, basic assets, and even managerial knowledge are not seen anymore as resources that create new and prosperous enterprises. Instead, knowledge, innovation and cooperation are becoming the three basic elements of the new infrastructure necessary to create prosperity in the new economy – knowledge economy. The fact that employees may affect the use of their own potential, as well as that of other resources, makes them the most important resource in gaining competitive advantage for the enterprise Durkovic, (2009).

Bates (n.d.), purported that, global firms need individuals capable of operating effectively in diverse cultural environments, using increasingly complex organizational structures and communication patterns and managing change using multiple integrative business strategies with an embedded international perspective. Similarly, in developing countries, the opening of internal markets, the adoption of new competitive strategies to meet market challenges, and demands of supplying products to meet the quality requirements of international firms are powerful forces driving organizational change. These changes have led to an expanded emphasis on HRD. McCutchan (1997) noted in (Wang, 2006: 52) that the fundamental source of competitive advantage in today's organizations was shifting from resources to knowledge and from relatively stable sources of technological and market advantage to the capacity to create such advantages. To this end, Mubarik, (2008), opines that, any organization that facilitates the learning of its members, constantly transforms itself and its context. The learning model he stressed is bound to have implications on future profitability, delivery of services and role of people management and development in (microfinance) institutions.

Al-Hawary and Sharma (2011) found that, despite previous efforts to improve banking in India, very little had been done in the area of human resource development. They stressed that to catch up with current technical changes in global banking, there was need to step up HRD in Indian banks because as they suggested HRD meant initiation, facilitation, awareness, generation, coordination and follow-up of the banking executives towards individual and organizational growth. This supports Bexley *et al.* (2012:9) who bears that, "banks also need to work to develop human resources through rehabilitation and training in such a way as to fit with the developmental process and the requirements of modern banking technology". Therefore, the compulsion is to engage in a continuous upgrading of the human resource to abate the consequent obsoleteness arising from challenges of technological and global advancements. The foregoing aligns with the expression of Syrian, (1997) that employees need be endowed with the capacity to move from one skill to another as each one becomes obsolete, and to develop the cognitive, analytical and inter-personal skills required to work in a modern organization and as the economy progresses from one level of development to another.

Dewa & Zakaria (2012:99) argued that, "the best way to institute quality into an organization, particularly a bank, is to train employees to perform better". Their conclusion implied that, for banks operating on the Islamic banking system, training and developing staff for expertise in Islamic banking operation, products, and sufficient knowledge of relevant aspects of shariah is an important prerequisite for their individual and collective development.

Benjamin (2011) in another study found correlation between HRD practices/climate and employee performance, attitude and behaviour. Similarly, Ashok and Umasankar (2012) revealed, among other things that banks must realize on certain key factors such as employee's need fulfilment, promoting innovation, participation in decision making process, team building, conflict resolution, and recognition as well as acquisition of employee skills and knowledge so that banks can expect higher productivity among employees. Sekhar, (n.d.) argued that, "the skill level, attitude and knowledge of the personnel play an important role in determining the competitiveness of a bank because capital and technology considered the most important pillars of banking are replicable, while human capital is not; which needs to be viewed as a valuable resource for the achievement of competitive advantage. Human resources according to him are to be treated indispensable because of the potential it has to activate the other factors of production of services in modern organizations". This converges with the perception of Sotunde & Salami, (2012) who found that an average employee in commercial bank in Nigeria hardly has time for personal developmental effort. They expressed the relevance of HRD through Adam Smith's statement that, the capabilities of individuals depended on their access to education. HRD they asserted is the medium, which drives the process between training and learning while investment in employee learning they added is a way of creating a primary internal market and policies aimed at progressively upgrading skills, which reduce dependency on external skill sources.

Armenta (2007) recognizes banking as a knowledge-based service industry that has always required specialized training but increasingly demands a more sophisticated skill mix. To him, the expertise required by the industry can be divided into academic training, and on-the-job skills. His study sustained the statement of McNaughton, (1997) that "Substantial training is needed to support institutional development...and that scarce skills are huge impediment to banking development." Impliedly, a consensus on the importance and relevance of HRD in individual and organizational development from the foregoing review as adequate illustration of the critical role it plays in achievement of competitive advantage and solving a variety of problems challenging corporate organizations in the present times of globalization.

2.3 Importance of Investment in Human Resource Development

Rawashdeh & Al-Adwan, (2012), targeted the permanent workers of human resource departments in thirteen Jordanian commercial banks. Their results reflected a positive and statistically significant association of recruitment and selection, compensation and rewards, with corporate performance, whereas, training and development showed a negative association with corporate performance. They confirmed findings of previous studies on human resource management practices and corporate performance except for training and development, which reported negative. This means that, banks management did not invest enough money on human resources through training and development programs, because they have applied cost reduction strategy in order to avoid threats posed by global crisis.

Bartell, (2004) studied employee perceptions and an econometric analysis of the responses to banks' employee attitude survey that controls for unobserved branch and manager characteristics shows a positive relationship between branch performance and employees' satisfaction, with the quality of performance evaluation, feedback and recognition at the branch, which are the incentives for a high performance work system. The combination of the branch visits and the econometric results support the notion that branch-level performance in the banking industry can be influenced by specific human resource management-related actions.

Al-Ghazawi (2012) found that staffing, training & development, incentives, and retention policy were the relevant activities representing human resource investment. While in another study, Ojo, (2011) discovered that corporate performance is largely determined by strategic human resource management practice. Consequently, his results show a positive relationship between strategic human resource practices and corporate performance of organization. Based on the findings Ojo, (2011) suggested that, corporate organizations in the Nigerian banking industry, should ensure that their human resource are adequately compensated, rewarded and motivated to enhance their performance which will translate to improvement in corporate performance.

Yahaya (2007) on another hand adopted a quantitative measure published by the Institute of Intellectual Capital Research and approved by the Saratoga Institute database to assess human resource effectiveness in three randomly selected banks. Hence, revenue factor, expense factor, income factor, compensation revenue factor, compensation expense factor, and compensation factor were adopted to asses human resource effectiveness while, human capital return on investment is proxy for return on investment in human resource. The results identified the main training and development activities in the three selected banks as orientation and on-the-job training, skills improvement training, utilization of the newly acquired skills, regular training and acquisition of job experiences in all areas of banking. It also found that, respondents were significantly different in the assessment of training and development activities in their banks based on length of service and job status. Ebiringa & Okorafor (2010) tested some human capital development index (formal education, on the job training, participation in seminars, conferences and trade fairs) on the SME performance index (quantity of output, quality of output, revenue generated, profits) and their results highlighted the critical value of on-the-job training as the most significant HCD index that influences SMEs performance. This implies that increasing on-the-job training increases performance of SMEs.

Considering yet other aspects of the relationship under investigation, Marimuthu et al, (2009) examined the extent to which human capitals have direct impact on firm performance from various critical perspectives. Their literature-based analysis deduced that human capital indicators enhanced the firm performance directly or indirectly. That firm performance can be viewed from two different perspectives; financial performance (productivity, market share and profitability) and non-financial performance (customer satisfaction, innovation, workflow improvement, and skills development. Literatures they reviewed also showed existence of strong evidences to show that the infusion of human capital enhancement in organizations promotes innovativeness. In light of their revelations they argued that, understanding firm performance in relation to human capital should not be regarded as a phenomenon that only "adds more zero's" in a firm's profits, it rather transforms the entire workforce as the most valuable assets in order for the organization to pave way for greater achievement via innovativeness and creativity.

Drawing from the Resource-based view (RBV) De Saa-Perez & Garcia-Falcon, (2002) stated that a firm be evaluated according to its superior set of resources that are dynamic and intangible, rather than according to its product market. The argument focused on the integration of human resources policies and practices and found support in Alkalha *et al.*, 2012)**,** which was conducted to measure the effect of planning, recruitment & selection, training & development, job analysis & design, motivation, performance appraisal, and employee participation in decision making on organizational performance. The study asserts that, although not widely implemented, employees' participation in decision-making is the most important human resource policy effecting organizational performance in Jordanian banks.

3. Methodology

3.1 Model specification

HRD lies within the domain of neoclassical analysis because it involves a long run investment in human resources that should result in a firm's growth. Solow (1956) developed his growth model on the assumption that production takes place with capital and labour as the factors of production. He explained the expansion of labour in conjunction with the exogenous technological progress factor.

$$Y=F\ (K, L) \qquad [1]$$

According to his model, technological change influences production by an increasing scale factor thereby making both capital and labour more productive over time. However, related studies suggest the influence of other factors such as human capital formation on economic growth. As a result, Mankiw et al (1992) appreciated human capital accumulation (H) as an additional explanatory variable and emerged with an augmented production function:

$$Y_t=A_{(t)}\ K^{\alpha 1}\ L^{\alpha 2}\ H^{\alpha 3} \qquad [2]$$

Where, Y represents aggregate real output, K denotes capital, L is the labour resource employed, H is the human capital formation, A represents efficiency factor while, $_t$ refers to the time dimension over which production occurs and assuming constant returns to scale $\alpha_1+\alpha_2+\alpha_3=1$. We can re-write the linear form of this augmented equation as follows

$$\text{Ln } Y= a+ \alpha_1 \text{LnK}+ \alpha_2 \text{LnL}+ \alpha_3 \text{LnH} \qquad [3]$$

Following the augmented model of Mankiw *et al* (1992), the current study proposes that Bank performance = f (Investment in HRD) adopting profit (after tax) as a proxy for bank performance while expenditure on training, salaries & wages of employees, and directors' remuneration represent the independent variable investment in HRD. Thus, model for the study:

$$\text{Ln PAX} = \lambda_0 + \lambda_1 \text{ LnTEX} + \lambda_2 \text{ LnSNW} + \lambda_3 \text{ LnDRE} + \varepsilon_t \qquad [4]$$

Where, $\lambda_0, \lambda_1, \lambda_2$, and λ_3 are parameters of the determinants of profitability and all parameters are expected to be greater than zero in the study ($\lambda_0, \lambda_1, \lambda_2,$ *and* $\lambda_3 > 0$). While, PAX stands for profit after tax, TEX for training expenditure, SNW for salaries & wages, DRE for directors' remuneration ε is the error or disturbance term.

Based on the model proposed to explain the nexus between bank performance and investment in HRD, the following hypothesis is stated in recommended null form to guide the study:

H_o: there exists no significant positive relationship between investing in human resource development and banks performance

3.2 Data and Variables

Data for the study covers the 2005 to 2011 period, and consists of six banks each drawn purposively from a population of all licensed commercial banks *(See appendix)* currently operating in Malaysia and Nigeria. Data for both countries banks emerged from published balance sheets, income statements and notes from annual reports of individual banks. The period under review was chosen because it presents the study with mostly complete data for both countries. Relevant variables considered were converted to U.S. $ to facilitate comparison between the countries under review. From the model, the study variables include profit, expenditure on training, salaries & wages of employees, and directors' remuneration to test for the relationship and impact of investment on human resource development on performance of banks, via the regression method. The regression model is more comprehensive than those in other studies because it includes variables which have not been covered by research in the field.

Profit is the Dependent variable and it is proxy for commercial bank performance. "Profit is the excess of revenues over expenses and taxes and is best measured by earnings" Kimball (1998:36), and "profit after tax is generally regarded as a traditional measure of performance" (Ojo, 2012:96). The independent variables include expenditure on training which literally refers to all funds allocated and spent for the purpose of training employees of banks. Generally, Nigerian banks spend at least 2.5% of their profits on training and development (Ogbonna, 2013) while "Malaysia's Central bank requires banks to spend the equivalent of at least 2.5% of salary costs on training" (Todd & Peetz, 2001). Other explanatory variables are salaries & wages of employees which describe monthly payments made to employees for services rendered while; directors' remuneration refers to the compensation fees and /or salary paid to directors of a bank.

4. Results and Discussion

Table 4.1:
Summary of results for Nigerian banks
Dependent variable (PAX)

Variables	Coefficients	Standard Error	T-Stat	P-Value
C	75968.66974	190718.4518	0.398328893	0.717042812
TEX	1.471419351	102055.4636	1.441784005	0.021704518
SNW	-44713.28124	112255.4377	-0.398317286	0.717050509
DRE	-0.003748016	0.099923139	-0.037508991	0.972435563

$R^2 = 0.886403991$

Table 4.2:
Summary of results for Malaysian banks
Dependent variable (PAX)

Variables	Coefficients	Standard Error	T-Stat	P-Value
C	6719.724214	36283.27651	0.185201692	0.864884411
TEX	1.841943895	22650.76894	0.813192655	0.028649613
SNW	-4192.539843	22649.29011	-0.185106898	0.864952529
DRE	1.979417732	1.733665706	1.141752834	0.336434829

$R^2 = 0.618353269$

The estimated models for both Malaysia and Nigeria are acceptable with R-square value showing expenditure on training, salary & wages and directors' emolument jointly influence 61.83% and 88.64% respectively of performance in commercial banks. This explains that banks in both Malaysia and Nigeria can influence changes in their performance using a combination of these three human resource development elements. Regression results in table 4.1 and 4.2 also showed that in both economies expenditure in training was significant in explaining performance of banks with positive coefficients indicating positive relationship with performance. This suggests that if commercial banks investment in expenditure on training employees increase, then the performance recorded will increase. Muktar (2005) also reported a positive relationship between expenditure on various types of training and banks performance. The underlying reason is because when staff undergoes training, their knowledge and skill levels increase and so does their ability to perform. Other results showed that directors' emolument was also a significant variable to explain performance in Malayan banks while salary & wages was not, meaning that any rise in the salary & wages of employees may result in decline of performance. Results for counterpart banks in Nigeria however showed that both salary & wages and directors' emolument influenced performance negatively in the sub-Saharan economy.

5. Conclusion

This study investigates empirically whether investment in human resource development represented by annual bank investments on training, salary & wages, and directors' emolument affects the performance of commercial banks. Utilizing a six-bank data each for the economies under observation, the study based on the model of Mankiw *et al* (1992) to investigate whether human resource development investment results in improved performance of banks. The empirical results suggest a positive relationship in both economies between expenditure on training and performance confirming other results in the literature. The results obtained in this study therefore, refutes the ideological misconception of human resource development as a non-revenue function which is costly and unnecessary. These results show that human resource development is an integral part of the firm which accords them capacity to create unique skill levels that guaranty efficiency. Based on the outcome of the estimation therefore banks in Malaysia and Nigeria are expected to increase their level of investment in developing their human resource assets. Regarding data on expenditures in training, some banks may increase or decrease their spending on training as they deem appropriate or require so it is recommended that furtherance of study should utilize data primarily sourced from banks internal working documents.

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Appendices

Appendix 1:
List of licensed Conventional Commercial Banks in Malaysia

No.	**Name of commercial bank**		
1	Affin Bank Berhard	15	Industrial and Commercial Bank of China (Malaysia) Bhd
2	Alliance Bank Malaysia Berhard	16	J.P.Morgan Chase Bank Berhard
3	AmBank (M) Berhard	17	Malayan Banking Berhard
4	BNP Paribas Malaysia Berhard	18	Mizuho Bank (Malaysia) Berhard
5	Bangkok Bank Berhard	19	National Bank of Abu Dhabi Malaysia Berhard
6	Bank of America Malaysia Berhard	20	OCBC Bank (Malaysia) Berhard
7	Bank of China (Malaysia) Berhard	21	Public Bank Berhard
8	Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhard	22	RHB Bank Berhard
9	CIMB Bank Berhard	23	Standard Chartered Bank Malaysia Berhard
10	CitiBank Berhard	24	Sumitomo Mitsui Banking Corporation Malaysia Berhard
11	Deustche Bank (Malaysia) Berhard	25	The Bank of Nova Scotia Berhard
12	HSBC Bank Malaysi Berhard	26	The Royal Bank of Scotland Berhard
13	Hong Leong Bank Berhard	27	United Overseas Bank (Malaysia) Bhd.
14	India International Bank (Malaysia) Berhard		

Source: BNM (2012) BNM list of licensed banking institutions in Malaysia retrieved from www.bnm.gov.my on 25/8/2013

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Appendix 2:
List of licensed Conventional Commercial Banks in Nigeria

No.	Name of commercial bank	No.	Name of commercial bank
1	Access Bank Plc	12	Mainstreet Bank Limited
2	Citibank Nigeria limited	13	Savannah Bank
3	Diamond Bank Plc	14	Skye Bank Plc
4	Ecobank Nigeria Plc	15	Stanbic IBTC Bank Nigeria Limited
5	Enterprise Bank Limited	16	Standard Chartered Bank Nigeria Limited
6	Fidelity Bank Nigeria Plc	17	Sterling Bank Plc
7	First Bank of Nigeria Plc	18	Union Bank of Nigeria Plc
8	First City Monument Bank Plc	19	United Bank for Africa Plc
9	Guaranty Trust Bank Plc	20	Unity Bank Plc
10	Heritage Banking Company limited	21	Wema Bank Plc
11	Keystone Bank Limited	22	Zenith Bank Plc

Source: www.cenbank.org and Wikipedia.org

Appendix 3:
Sampled Malaysian Banks

No.	Name of commercial bank
1	Affin Bank Berhard
2	CIMB Bank Berhard
3	Hong Leong Bank Berhard
4	Public Bank Berhard
5	RHB Bank Berhard
6	Standard Chartered Bank Malaysia Berhard

Appendix 4:
Sampled Nigerian Banks

No.	Name of commercial bank
1	Access Bank Plc
2	Diamond Bank Plc
3	First Bank of Nigeria Plc
4	Guaranty Trust Bank Plc
5	Sterling Bank Plc
6	Zenith Bank Plc