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THE DILEMMA OF INVESTING ON HUMAN RESOURCES: A RISKY INITIATIVE?

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Abstract:

The only resource of an organization that has life and can be motivated is its employees. Like any other resources, this area also requires investment that involves risk. This paper aims at emphasizing the necessity of investing on human capital as well as the risks involved in such investment from firms' perspective. The bases of this descriptive paper are the previous literatures only. The authors hope that this investigative paper and the suggestions made based on experts' view will be helpful to the academicians for further research and the top level decision makers specially the HR departments to take investment decisions on their employees more wisely and with utmost care.

Keyword: human resources, investment, dilemma, risk, competitive advantage, firm

1. Introduction

The people who work for an organization can be treated as human resource or capital. As people are the only lively resources of a firm, the effective utilization of other resources is mostly dependent upon human resources who can be trained, skilled, motivated, committed and eventually, competitive advantage (Hosain, 2016). For converting this resource into competitive advantage, it needs investment form the firm. The investment may be made through training, performance based pay and other motivational incentives.

But like any other investment, this investment has also some risks involved since the investment is made to a unique resource which is dissimilar to any other assets like

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physical or financial resources. Such resource has no depreciation like land, building and physical goods; rather it is movable and free. As people are free or movable, they can change the organization if they are not committed, empowered or motivated (Hosain, 2014). Therefore, the question of return on such investment lies on the performance of those employees on whom such investment was made. On the top of that, more importantly, it is not about only return (performance of employees) but also their (the employees) commitment, dedication and orientation towards the firm that made such investment. Generally, when a firm makes the investment decision for its human resource, it assumes that such resource (at least, a major portion) will stay with that firm for a substantial period of time. But it is not always the reality. As has been told earlier, people will always seek better opportunity in their career. Even the most satisfied and motivated employees may leave a firm for better opportunity (better pay, higher job position etc). As a result, top managements of organizations are always in a kind of dilemma whether to make such investment and to what extent. The dilemma arises more acutely since such investments have opportunity cost and need to be readjusted against capital or profit gain taking the opinion of shareholders. In some cases, the decision becomes a very tough or unpleasant one for top level management.

2. Literature review

The optimal effectiveness and efficiency of an organization do not depend on its financial resources or using the most recent technology, rather it is determined by the degree to which manner it is using its committed, motivated and competent workforce (Hosain, 2015). In particular, it has been commonly recognized that human resources are of key magnitude in creating sustainable competitive advantage for the firms (Colbert, 2004; Laursen & Foss, 2003; Pfeffer, 1998; Subramony et al., 2008). Choi (2010) proposed that a firm's investment for human resource development (HRD) in the shape of corporate training and financial support for education influences its innovative performance by escalating a variety of learning behavior occupied by its employees. He (Choi, 2010) suggested that a firm's investment on employee development such as corporate training and financial reward with a view to enhance professional innovative performance by invigorating diverse learning activities among the staffs. Beugelsdijk (2008) showed that some of the HR practices like task autonomy, training and performance based pay are positively correlated with organizational innovation as measured by the share of new products in total sales volume.

Scholars have stressed on the task of learning and knowledge management in different stages of innovation such as identification of problem, generation of ideas, promotion of ideas and implementation of ideas (Amabile, 1996; Shalley et al., 2004; Nonaka & Takeuchi, 1995) through proper organizational investment. Organizational learning consists of a fundamental procedure for modernization that supports the incorporation and exploitation of exterior knowledge and integrating with interior knowledge through effective transfer and creation of knowledge among employees (Beugelsdijk, 2008; Laursen & Mahnke, 2001; Shipton et al., 2005). Assuming that investment on HR is indented to enhance skills, abilities and knowledge, it can lead to individual and finally organizational performance.

Based on the idea that human resources offer an exclusive source of firm-specific competitive advantage that is difficult or impossible for competitors to imitate (Barney, 1991; Huselid, 1995; Wright & McMahan, 1992), academicians on strategy have paid attention on the issue of developing and utilizing human resources through distinctive HRM practices (Koch et al., 1996; Lau & Ngo, 2004; Wright & Boswell, 2002). One of the key HRM practices targeted at building competitive human capital is human resource development investment that refers to a firm's resource allocation process in actions and programs intended to develop employees' knowledge and job related competitive skills (Subramony et al., 2008). This study will discuss the three major investment routes often made by a firm: corporate training, financial support and competency based pay (Laursen & Foss, 2003; Marchington & Grugulis, 2000).

2.1 Corporate training

Undoubtedly, training has been accepted as a leading instrument for developing human resources (Collins & Smith, 2006; Lau & Ngo, 2004; Marchington & Grugulis, 2000; Valle et al., 2000; Souitaris, 2002). Taking into account that individuals' domain-relevant skills and knowledge are significant predictors of employees' inventive process of generating new and skillful ideas (Marchington & Grugulis, 2000), corporate training may better prepare employees to be imaginative, leading to improved overall innovative performance. Corporate training is designed and delivered to people in a variety of forms (lectures, workshops, seminars, practical visit, case analysis, management games) as well as through diverse media (collective, face to face, personalized online training) (Bartel, 1994; Delaney & Huselid, 1996). With the help of social connections among staffs and combinations of their knowledge, both internal and external corporate trainings promote employees' creative process of generating new and constructive thoughts, leading to creation of knowledge and improved overall innovative performance (Marchington & Grugulis, 2000; Nonaka & Takeuchi, 1995). Moreover, assuming that knowledge is a central element of generating innovation through new combinations and reconfigurations of existing mechanism (Kang et al., 2007; Laursen & Foss, 2003; Laursen & Mahnke, 2001), intensifying both the depth and the width of knowledge bases of employees through corporate training has obvious strategic importance for organizational performance.

2.2 Financial support

An additional general format of HR investment is monetary support for employees' educational and professional development initiatives (Marchington & Grugulis, 2000; Pfeffer, 1998). Financial support generally triggered to employees' self-development efforts that will have either personal or professional implications. Through such support, organizations might enhance their staffs' basic skills, capabilities and knowledge. Moreover, employees may perceive such supports of the organizations as caring attitude towards them. Such financial support, whatever the cause, creates an obligation towards the organization (Allen et al., 2003; Shore & Wayne, 1993). Hence, in addition to enhanced motivation to learn and improve, financial support likely to develop emotional commitment to the organization, resulting in positive organizational outcomes (Choi, 2010).

2.3 Competency based pay

Competency based payment method denotes to pay for performance, not for seniority or position. In this system, an employee gets additional payment according to the possession of definite skill or expertise that others might not have. Gachuru & Kwasira (2016) established that skill based pay, performance based pay and training all has significant influence on employee productivity. A number of firms invest on its employees who have skills and expertise that might be treated as competitive advantage. This is a special type of investment as all the employees do not have such skills and expertise.

3. Arguments for investing on human resources

There are a number of strong arguments that can be put in favor of investing on human resources. As the training can improve the efficiency, skill set and innovative knowledge in a great quantity of human resources unlike any other resources, it has a deep impact. The major arguments for investing on employees have been highlighted below:

3.1 Improvement of skills and knowledge

The most important and strong argument in favor of investment on employees is that such investment can enhance the skill, knowledge and learning capabilities. Strategically targeted training in critical skills and knowledge bases adds to employee marketability security of jobs that is central in current business environment with rapid technological development and changing jobs and work process (Mello, 2014).

3.2 Long term orientation

Investment on employees basically fruitful in the long term rather than short term benefits. Such investment will keep up and increase employee motivation that will help to retain more competent employees.

3.3 Change agent

Investment on staffs in the form of training and development acts as change agents. Employees learn how to take decision, implement the decision and apply the skill set in critical times rather than working in a traditional style.

3.4 Transfer of skill and knowledge
Training, which is a major form or organizational investment on its employees, help to transfer skills and knowledge from the person who possess them to the people who need them. Therefore, this is a platform of sharing skills and knowledge.

3.5 Employee motivation
Such investments are a major motivator for the employees. As a result of such investment, the competent workforce will remain in the organization and will attract new, tentative workforce who want to learn and achieve.

3.6 Creating competitive advantage
More competent, knowledgeable, skilled employees create a pool of competitive workforce for the organization which is a major source of competitive advantage.

4. Risks of investing on human resources

As said earlier, like any other investment, investment in human resources is not completely risk free. This form of risk is the uncertainty concerning outcomes or actions, particularly with respect to the future (Miller & Bromiley, 1990). Risk impairs forecasting and planning activities and makes it complicated for decision makers to sketch for future actions (Bhattacharya & Wright, 2000). A firm's investment in human resources entail risks as the performance of or the returns from workers is uncertain and these could differ over time (Bhattacharya & Wright, 2000). The risks are highlighted below:

4.1 Uncertainties of returns and performance
As the skill becomes obsolete, there creates demands for new skills and turnover happens which creates uncertainty on performance. As the competitive environment changes over time, firms have to adjust by developing new technologies, products and capabilities, which indicates that if the present employees do not adapt or upgrade their own skills and expertise to the changing demands, there will be a risk of obsolescence of performance (Bhattacharya & Wright, 2000). Again, the new skill might be in shortage in the market or there might be high competition among the firms for those employees who possess such skills. A typical example is the expertise in IT security that is heavily in demand in the financial market. Although, there are high unemployment rate in many countries, firms are struggling to find people with those skills as supply for such skill is very rare.

4.2 Uncertainties of volume
Uncertainties of volume arise owing to seasonal or cyclic variations in service or due to unexpected fluctuations of demand and supply of the number of workers (Bhattacharya & Wright, 2000). As for example, in vacations, summer season or in weekends, the restaurant industry requires higher number of staffs (part or full time) due to increased

sales volume. Firms coming across volume fluctuations in production demands have connected fluctuations in their human resource demands. In case of such volatile demand related industry, a higher number of full time or permanent employees will create the risk of being idle. This kind of risk pre-assumes a stable skill set and hence it is different from the risks related to skill obsolescence, non-availability or capital loss (Bhattacharya & Wright, 2000).

4.3 Uncertainties of costs and combinations
Uncertainties of costs are linked with the fixed cost of employees, like cost appreciation or reduction. High investments on employee particularly when the profitability is unstable generate a rigorous pull on the cash flow (Bhattacharya & Wright, 2000).

On the other hand, uncertainties of combination occur when there is a requirement for reallocation of employees or their skills within the firm due to qualitative or quantitative fluctuations in demand and supply. For example, day to day arrangement might require shifting of staffs around diverse operating areas as per obligation as well as for the necessity of reducing employee costs or keeping it under control. But if the employees do not have the extent of skills or knowledge, this may not be possible and gives rise to the risk of combination (Bhattacharya & Wright, 2000).

4.4 Tacit or sticky knowledge
Some skills or knowledge are particularly associated with specific person that are not fully or partially transferable. Therefore, such skills cannot be transferred to others through training. In such cases, there are two kinds of risk associated. First, such investment on training are not always successful as the trainees might not get the skills from the trainer. Second, if such skilled an employee leaves the job, it would be irreplaceable for the firm. As examples for such skills, we can say the memorizing power (or any other cognitive skills) or the power of motivating others in a short time with minimum effort.

4.5 Risk of turnover
The obvious risk and sad incident for any firm is the voluntary turnover of an employee who is dedicated, skilled and experienced. To an employee, a firm invests a lot of money and time to train and upgrade. If, for any reason, that employee leaves the company, it might be considered a huge setback as he/she is not only taking such investment with him/her but also the experience and other valuable information that might be used against the present company as a potential future competitor.

4.6 The ethical dilemma
Investing in human resources sometimes creates ethical dilemma for the management. In one hand, if management thinks that the employees have intention to leave, it is reluctant to invest more money on them through higher pay, training etc. On the other hand, it creates problem of inefficiency and lack of motivation if the management gives no training and competency based pay. In modern times, employee turnover is big

issue which always put stress on management specially if the company is small and has fewer budgets to invest on employees.

The listing of risks is by no means comprehensive. Examination of each and every particular risk connected with managing human resources is away from the capacity of one or couple of papers. We argue that risks involved in human resources management are more or less similar to risks involved in real asset management. Sometimes, managing the people is even more complicated or risky than other capital management as it is live and movable.

5. Recommendations

Based on the above essentialities and risks involved, we put some recommendations for the managers regarding this based on experts' views. Such recommendations may not be equally applicable everywhere, but in general, the authors thinks that these recommendations can help the managers partially if not fully.

5.1 Establishment the proper HR practices

Firms should adopt the proper HR practices rather than relying on traditional management. It might cost a little bit more initially but in the long run, it can bring sustainable competitive advantage by creating a skilled and efficient workforce.

5.2 Creation of open door policy

In most firms, until now, the chain of command is in practice. Top management might maintain an open door policy where the employees can share their opinions, issues, problems and expectations with the upper level, even the personal ones. We suggest that such policy will solve many issues regarding employees.

5.3 Strategic partnership

Another effective approach can be proving the efficient employees some stocks/shares of the firm. It will create a sense of ownership among the competent employees. In turn, it will increase the motivation and reduce turnover. Actually some firms are practicing this policy successfully.

5.4 Profit sharing

Profit sharing among the employees is another effective policy that brings enthusiasm among the employees. Such policy can also help in reducing de-motivation and turnover.

5.5 Balanced workforce

Balanced workforce refers to the number of employees that can work as a team through proper interaction. It does not mean a big workforce; rather it can be a small one who can work as a team with synergy. It is always advised to wipe off the inactive employees as they only create burden for the firms. Keeping the competent employees only with a competitive compensation package rather than keeping a bigger workforce with average package is several times a better policy for the strategic firms.

5.6 Inclusion in decision making process and empowerment

Firms should include the employees in routine and to some extent, strategic decision making process so that they feel themselves important for the organization. It will create a sense of ownership. Another important suggestion is to engage and empower the employees as much as possible in organizational functions. Hosain (2014) showed that empowerment is somewhat related to motivating employees and reduce turnover.

6. Limitations, research gap and scope for further study

The study is a qualitative one only based on the previous literatures. Hence, the basic issues regarding HR investment has been highlighted in this paper from only the firms' perspectives. A quantitative and wider study may disclose some more insights from different stakeholders' perspective. Therefore, there is a gap in this area especially regarding the risks of such investment as turnover of competent employees is a big issue in present corporate world. As a result, the authors think that there are still many scopes to conduct more research in this area in future.

7. Conclusion

Human resource is the life blood of a firm. No firm can succeed without recognizing its valuable employees and nurturing them. Therefore, the firms, big or small, manufacturing or service, profit or non-profit, should take utmost care of this very important factor of production. The paper tried to identify the importance and risks involved on investing human resources as well as the authors highlighted some recommendations, according to the experts, to overcome such risks. The authors are hopeful that this paper will be helpful for them who are working in top decision making level and the academicians who want to explore more in this area as this paper has discussed only the basic issues regarding investment on human resources.

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