Investing in Human Capital Management for Firm Performance: Liability or Strategic Alignment?

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ABSTRACT
A firm’s sustainable performance is a burgeoning issue globally. It is the strategic choice of the firm whether it should invest in its human resources. This study examines the role of human capital management in determining firm performance. HR competencies, HR practices, HR systems, and HR deliverables were selected as the dimensions of human capital management. Employee satisfaction was the mediating variable. Data were collected from a survey of conveniently selected 305 employees of purposively selected life insurance companies in Nepal. The results of the study revealed a positive significant impact of each component of human capital management and overall human capital management on firm performance, concluding that investment in human capital management is the strategic alignment rather than the liability. Firms investing more in human capital enhance their financial performance for sustainable growth. This study contributes to elaborating the resource-based view for creating dynamic capability of resources from effective development and mobilization of human resources.

1. INTRODUCTION

Human capital is crucial for firm performance (Crook et al.). Investment in human capital increases firm-level performance (Scafarto et al. 2016; Shrader & Siegel, 2007). Human capital is not only an instrument for current performance but also for developing firms’ competitive advantages (Alnachef & Alhajjar, 2017) and sustainability. For sustainability, firms need to invest in human capital management.

The resource-based view (Barney, 1991) proposed human capital as a valuable, inimitable, rare, and non-substitutable component referred to as strategic assets (Hall, 1992). Human capital (HC) refers to the collective knowledge, expertise, experience, and other essential qualities employees possess. It plays a crucial role in determining the overall efficiency, effectiveness, and productivity of the organization.

The importance of investing in intangible assets, i.e., in human capital, is increasing for modern firms (Fedyk & Hodson, 2022; Zingales, 2000) to focus on effectively managing
and optimizing workforce to address new business sustainability challenges by maintaining firms’ competitiveness and performance (Khan & Quaddus, 2018; Mayer et al., 2012). Firms with ample focus on acquiring, developing, and maintaining human capital define their competitive position by creating resources and capabilities (Barney, 1991; Khan & Quaddus, 2018) though there are few contradictions in connection of human capital on positive results on firm performance (Coff & Kryscynski, 2011; Scafarto et al., 2016). Thus, specific research analysis on the relationship between human capital and firm performance based on resource and capability perspective is of growing interest (Kelliher & Reinl, 2009; Khan & Quaddus, 2018). In call of such needs, this study will answer the prominent factors of human capital, their association and their effect on firm performance.

Firms should be competitive and dynamic to respond to the changing business environment. Human capital is the source of competitive advantages, leading firms to higher productivity and performance. The insurance industry in Nepal is one of the fast-growing industries in terms of number of firms, products and capital size. Insurance companies are developing and selling products (insurance policies) for domestic consumers, because of which they face high competition as there are fixed people and business activities. Insurance companies in Nepal manage two types of human resources, i.e., regular employees working for salaries and agents working for commission. Regular employees engage in the delivery of office services, especially post-sales services, while the agents engage in selling insurance products. In such a situation, human capital development becomes more crucial in insurance companies. This study evaluates the different dimensions of human capital contributing to firm performance.

Human capital management (HCM) involves the skillful and proficient management of planning, acquiring, utilizing, and sustaining the competencies of employees within business enterprises. Organizations with effective HCM create dynamic competitive advantages, gaining a global interest (Fedyk & Hodson, 2022; Khan & Quaddus, 2018; Marimuthu et al., 2009). HCM brings organizational competency, which ensures higher effectiveness and performance. In today’s competitive environment with a higher rate of employee turnover, the outcome of effective HCM is the attainment of organizational stability and growth. Insurance firms in the most competitive business environment have challenges to attract, retain and release human potential for the organizations. On one side, the government is encouraging different insurance products (focusing on health insurance and agriculture insurance); insurance firms have the opportunity to excel in their performance, while on the other hand, lack of public awareness and undue expectations of consumers create challenges.

On the contrary, some research evidence (e.g., Scafarto et al. 2016) reject the direct significant relationship between HCM and firm performance but accepts the mediation role of HCM in association with innovation capital to improve the firm performance. In this context, the research aims to investigate the human capital management practices within the insurance industry of Nepal. Additionally, it seeks to analyze the influence of various elements of HCM on predicting firm performance.

2. LITERATURE REVIEW

Human resources can be interpreted as organizational competitive resources (Barney, 1991) from the Resource Based View, which comprises four important features valuableness, rareness, inimitability, and non-substitutability. According to OECD (1996), human capital, viewed from a macroeconomic standpoint, is the driving force behind economic activity, competitiveness, and financial performance.

Human Capital and Firm Performance

Human capital, a crucial aspect of intellectual capital, is vital in providing genuine
and sustainable competitive advantages for a firm (Bontis et al., 2000; Reed et al., 2006) and enhancing its competitive position (Marr, 2004). The competitive advantage arises when customers perceive a higher value in a firm’s products and services than its competitors (Hall, 1993), directly impacting wealth generation (Herremans & Isaac, 2004). Human capital encompasses employees’ collective knowledge, skills, abilities, and competencies (Ployhart & Vandenberg, 2006), which can be developed through investments in four key elements: genetic inheritances, education, experience, and attitudes towards life and business (Hudson, 1993). The productivity, efficiency, and effectiveness of any organization are closely linked to the skills and expertise of its employees. Moreover, the beliefs, values, creativity, and innovative ideas of employees can significantly influence the organization’s value system and innovative endeavours.

Human capital has a significant link with indicators of financial performance (e.g., earnings per share, annual return, and return on equity) of business firms (Stewart, 2007) and for the sustainability of the profit (Peltoniemi & Vuori, 2005) even within the new challenges (Bose & Oh, 2004; Hematfar et al., 2013). Human capital is critical to create and offer products and services for the optimal use of capabilities to add value (Fraiha, 2011; Sanchez et al., 1996).

Companies that extensively leverage human capital were observed to have comparatively higher stock prices (Change, 2007; Bose & Oh, 2004). Human capital generates the core competencies and distinguishes the organization strategically from competitors (Leonard-Barton, 1992) through effective human capital management (Carmeli & Schaubroeck, 2005). Based on this evidence, the following hypothesis was developed.

H1: Human capital has a significant positive impact on firm performance

This study utilized the human capital model that Beatty et al. (2003) proposed with some minor modifications, incorporating insights from the resource-based view (Barney, 1991). The framework (Figure 1) serves as a guide for evaluating human capital management within organizations, employee satisfaction, and firm performance. Human capital results from HR competencies, practices, systems, and deliverables. HR competencies encompass administrative expertise, employee expertise, strategy implementation, and change agency. HR practices involve organizational efforts to acquire the best employees for suitable roles, including recruitment and selection best practices, job design, training and development, performance management, and compensation management. The HR system deals with the flow of HR inputs leading to organizational outputs, comprising variables like HR alignment, integration, and differentiation. Similarly, HR deliverables consist of workforce mindset, technical skills and knowledge, and workforce behavior, contributing to more effective and efficient job performance.

HR Competencies and Firm Performance

HR competencies encompass a collection of visible and quantifiable knowledge, skills, abilities, and personal traits that improve employees’ performance, subsequently leading to enhanced firm performance. The variables used to measure HR competencies include accountability, adaptability, communication, customer focus, quality focus, and leadership ability. For HR professionals, HR competencies consist of strategic contribution, personal credibility, HR delivery, business knowledge, HR technology, and change management (Ulrich et al., 2008). The research emphasizes that HR professionals who excel in these competencies can significantly influence organizational success. The study suggests that HR professionals with strong competencies in strategic planning, analytics, and change management are more likely to contribute significantly to firm performance and help achieve strategic objectives (Lawler & Boudreau, 2009). HR professionals who possess and demonstrate these competencies can positively influence firm performance (Ivancevich & Kleiner, 1999). Based on these empirical findings, the following hypothesis was developed.

H2: HR competencies have a positive significant impact on the firm performance.
HR Practices and Firm Performance

HR practices refer to the strategic functions of human resource management to acquire skilled human resources. These practices encompass organizational approaches to recruitment and selection, HR planning, training and development, performance appraisal, reward management, and employee relations maintenance. Companies that align their HR practices with strategic objectives attain superior performance levels (Becker & Gerhart, 1996; Delery & Doty, 1996). High-performance work practices significantly influence the firm performance, including financial performance, operational performance, and innovation (Combs et al., 2006). HR practices to develop human capital not only influence financial performance but also the work attitude and employees’ commitment. Huselid (1995) provides empirical evidence for a positive relationship between HR practices and firm performance and employees’ commitment. It shows that companies that invest in high-performance HR practices experience lower employee turnover, higher productivity, and superior financial performance. Based on this evidence, the following hypothesis was formulated.

H3: HR practices have a significant positive impact on firm performance.

HR Systems and Firm Performance

The HR system consists of alignment, integration, and differentiation. Effective HR systems encompass a range of practices and policies concerning talent acquisition, training and development, performance management, and employee engagement. The design and implementation of these HR systems can significantly impact a company’s performance (Arthur, 1994) and lead to reduced turnover. HR systems aligned with the overall business strategy enhance organizational performance and competitiveness. Examples of HR systems include employee involvement, training and development, performance-based compensation, and flexible work arrangements. Adopting high-performance working systems positively influences employees’ performance, thereby contributing to overall organizational performance (Combs et al., 2006) through enhanced engagement and performance (Delaney & Huselid, 1996). The following hypothesis was formulated based on these empirical findings.

H4: The HR system has a significant positive impact on firm performance.

Human Deliverables and Firm Performance

HR deliverables consist of the workforce’s mindset, technical skills, knowledge, and behavioural attributes required to carry out their job responsibilities with greater effectiveness and efficiency. The HR deliverables, encompassing various HR practices, directly contribute to employee satisfaction, motivation, and productivity, influencing overall organizational performance. HR deliverables, such as training and development, performance management, and employee engagement, are critical in influencing firm performance positively (Pauwue & Boselie, 2005; Purcell et al., 2003). A positive and growth-oriented mindset among employees can lead to increased motivation, higher levels of engagement, better decision-making, and overall improved performance. On the other hand, a negative or stagnant mindset can hinder innovation, collaboration, and productivity. Organizations that foster a growth mindset among their workforce tend to experience improved innovation, risk-taking, and adaptability, leading to enhanced firm performance (Blackwell et al. 2007; Bryce et al., 2014; Dweck, 2006). Based on this empirical evidence, the following hypothesis was developed.

H5: HR deliverables have a significant positive impact on firm performance.

The Mediating Role of Employee Satisfaction

Different dimensions of human capital management (HCM) significantly impact employee satisfaction. Employees’ satisfaction will be significant because of training and development (Bhatti et al., 2014; Chang & Chi, 2018), employee engagement practices (Harter et al., 2002; Saks, 2006), compensation and benefits (Chen et al., 2016; Gautam, 2017; Kim,
2017), career advancement (Greenhaus & Powell, 2006; Lu et al., 2010), and work-life balance (Allen et al., 2000; Kossek & Ozeki, 1998). Satisfied employees demonstrate job commitment and a positive attitude toward consumer satisfaction while leading the higher productivity and performance of the firm (Bao et al., 2020, Harter et al., 2002; Wright & Bonett, 2007). Based on this evidence, the following hypothesis was developed.

H6: Employee satisfaction significantly influences the relationship between HR capital and firm performance.

3. RESEARCH METHODS

This study adopts an analytical research design with the firm’s financial performance as the dependent variable and human capital management (consisting of four variables: human resources competencies, human resources practices, human resources system, and human resource deliverables) as predictors. Demographic variables are considered control variables. The study includes 39 insurance companies in Nepal during the study period, comprising 18 life insurance, 20 non-life insurance, and one reinsurance company. Seven life insurance companies were selected through simple random sampling, excluding those offering both life and non-life insurance policies. The sample firms’ performance is assessed using return on asset and market share indicators. Three scale statements were prepared for each of the four dimensions to measure human capital management practices in the sample firms. Respondents indicated their perceptions using ‘yes,’ ‘no,’ and ‘no idea’ for each item. Percentage analysis was conducted to identify whether respondents feel their organization effectively maintains human capital through HCM. Employee satisfaction regarding organizational human capital management was measured using a five-point Likert scale questionnaire. Using a Likert scale questionnaire, the firm’s performance was also evaluated based on the perceptual responses from 305 employees holding different functional responsibilities. The overall response on human capital is calculated by taking the weighted average value of the four components: HR competencies, HR practices, HR system, and HR deliverables.

4. RESULTS

To assess the state of HCM in the sample organizations, 13 statements covering the four dimensions of human capital were presented to the respondents with three response options: yes, no, and no idea. The results from Table 1 show that the respondents provided a mixed response (cent percent) to all 13 statements, indicating that their organizations maintain good human capital management practices. However, this could be due to poor communication of the provisions to employees or a lack of awareness regarding the existing HCM practices.

Among the statements, a significant majority of the respondents (56.9%) reported no provision for employee participation in suggesting innovative ideas, suggesting a lower level of employee involvement in decision-making within Nepali Life Insurance Companies. Additionally, 44 percent of the respondents responded negatively to the statement ‘company maintains an environment of respecting skills, knowledge, and expertise,’ indicating that there might be issues with valuing and appreciating employees’ capabilities.

Similarly, 49 percent of the respondents either believe their organization lacks a unique HR system or are uncertain about its existence. Although the majority of the respondents stated that their organizations promote innovative ideas from employees, 26.90 percent disagreed with this statement. The areas of concern regarding HCM included the need for a more transparent performance appraisal system, a stronger commitment to hiring qualified employees and providing clear working procedures. These findings indicate the company’s urgent need to adjust its existing HCM practices.
Table 1
Organizational Alignment towards Human Capital Management

<table>
<thead>
<tr>
<th>Statements</th>
<th>Yes (%)</th>
<th>No (%)</th>
<th>No idea (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your company searches for the best candidates from various sources.</td>
<td>54.9</td>
<td>16</td>
<td>29.2</td>
</tr>
<tr>
<td>Your company re-advertises the vacancy if there is no perfect candidate is found.</td>
<td>53.5</td>
<td>46.5</td>
<td>0</td>
</tr>
<tr>
<td>Your company provides details of the working procedure to new employees.</td>
<td>57.6</td>
<td>16.7</td>
<td>25.7</td>
</tr>
<tr>
<td>Your company has a transparent performance appraisal system.</td>
<td>60.4</td>
<td>36.1</td>
<td>3.5</td>
</tr>
<tr>
<td>The company promotes employees’ innovative ideas.</td>
<td>73.1</td>
<td>16.1</td>
<td>10.8</td>
</tr>
<tr>
<td>Employees of the company have enough skills to execute the strategy.</td>
<td>55.6</td>
<td>9.7</td>
<td>34.7</td>
</tr>
<tr>
<td>Employees in the organization are the change agents in the company.</td>
<td>54.9</td>
<td>16</td>
<td>29.2</td>
</tr>
<tr>
<td>The company maintains an environment of respecting skills, knowledge and competencies</td>
<td>55.6</td>
<td>44.4</td>
<td>0</td>
</tr>
<tr>
<td>The HR system of the company integrates personal growth and organizational growth.</td>
<td>52</td>
<td>14</td>
<td>34</td>
</tr>
<tr>
<td>The HR system of the company has differentiated functions.</td>
<td>54.9</td>
<td>16</td>
<td>28.5</td>
</tr>
<tr>
<td>The HR system of the company is unique in the industry.</td>
<td>51</td>
<td>32</td>
<td>17</td>
</tr>
<tr>
<td>Employees use their technical skills fully at their job.</td>
<td>56.3</td>
<td>9.7</td>
<td>34</td>
</tr>
<tr>
<td>Employees support the management initiation for organizational benefits.</td>
<td>62.1</td>
<td>16</td>
<td>21.9</td>
</tr>
</tbody>
</table>

In general, Nepalese insurance companies do maintain human capital. However, they need to focus on selecting human talent and developing employees for higher competencies with a transparent appraisal and reward system. To test the sampling adequacy, Kaiser Meyer-Olkin (KMO) and Bartlett’s test of sphericity (Field, 2009) are presented in Table 2.

Table 2
Sample Adequacy Test

<table>
<thead>
<tr>
<th>Construct</th>
<th>KMO</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR competencies</td>
<td>0.749</td>
<td>0.000</td>
</tr>
<tr>
<td>HR practices</td>
<td>0.829</td>
<td>0.000</td>
</tr>
<tr>
<td>HR system</td>
<td>0.781</td>
<td>0.000</td>
</tr>
<tr>
<td>HR deliverables</td>
<td>0.813</td>
<td>0.000</td>
</tr>
</tbody>
</table>
Table 3

Summary Statistics

<table>
<thead>
<tr>
<th>Constructs</th>
<th>α</th>
<th>CR</th>
<th>AVE</th>
<th>Mean</th>
<th>SD</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR competencies</td>
<td>.711</td>
<td>.721</td>
<td>.512</td>
<td>3.867</td>
<td>.539</td>
<td>-.287</td>
<td>-.711</td>
<td>.716**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HR practices</td>
<td>.801</td>
<td>.833</td>
<td>.534</td>
<td>3.698</td>
<td>.819</td>
<td>-.845</td>
<td>-.505</td>
<td>.547**</td>
<td>.731</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HR system</td>
<td>.724</td>
<td>.726</td>
<td>.564</td>
<td>3.652</td>
<td>.552</td>
<td>-.644</td>
<td>-.415</td>
<td>.622**</td>
<td>.647**</td>
<td>.751</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee satisfaction</td>
<td>.806</td>
<td>.802</td>
<td>.515</td>
<td>3.955</td>
<td>.515</td>
<td>-.665</td>
<td>.113</td>
<td>.511**</td>
<td>.617**</td>
<td>.606**</td>
<td>.718</td>
<td></td>
</tr>
<tr>
<td>Firm performance</td>
<td>.802</td>
<td>.831</td>
<td>.534</td>
<td>3.991</td>
<td>.612</td>
<td>-.612</td>
<td>.115</td>
<td>.521**</td>
<td>.512**</td>
<td>.431**</td>
<td>.732**</td>
<td>.731</td>
</tr>
</tbody>
</table>

** Significant at the 0.01 level (2-tailed).
Significant KMO values (more than 0.50) of all four constructs support the sample adequacy of the study. The next step will be examining the construct and discriminant validity employing confirmatory factor analysis. Table 3 provides the reliability and Average Variance Extracted (AVE) of the measurement model.

AVEs and CRs fulfil the threshold for no issue of adequate convergence and internal consistency (in Table 3), as the threshold limit for AVEs and CRs are at 0.50 and 0.70, as suggested by Chin (2010) and Hair et al. (2010). For the validation of the construct, structural equation modeling-AMOS was used along with data normality and collinearity diagnostic (Table 3).

The mean (SD) of HR competencies, HR practices, HR system, Employee satisfaction, and Firm Performance 3.84(0.53), 3.67(0.82), 3.65(0.55), 3.95(0.51), and 3.99(61) respectively (in Table 3). Respondents reported that they agreed with the statements regarding the construct of the framework. The data is normal as the skewness and kurtosis values lie within ±2 (Table 3) (George, 2011). The bold diagonal elements are the square root of AVEs, and off-diagonal values are the inter-items correlations. As the square root of AVEs was larger than the correlation (Fornell & Larcker, 1981; Hair et al., 2010), it implies no discriminant validity issues.

The significant positive \( p<0.01 \) coefficients of correlation between variables support the hypotheses of the study, i.e., human capital components have a significant effect on firm performance. Further, the correlation coefficients lower than 0.8 supports the argument of an absence of multicollinearity (Jalali, Jaafar & Ramayah, 2014) problem in the data. Results support the initial proposition that the higher the components of human capital, the higher the firm performance. As suggested by Hair et al. (2014), the model describes the issue raised in the study as the model fit indices CMIN/DF(2.12), GIF(0.901), TLI(0.921), CFI(0.921), NFI(0.895), and RMSEA(0.046) fulfil the minimum and sufficient conditions of model fit.

**Test of Hypotheses**

Structural equation modelling - AMOS was used to test the hypotheses (Table 3 and Table 4). Table 3 provides a direct effect of the proposed variables. Standardized coefficient \( \beta = 0.25 \) and \( p-value < 0.01 \) in the direct effect of HR competencies provided evidence that the effectiveness of employees’ competencies significantly influences the firm performance, accepting the hypothesis H2. Likewise, hypotheses H3, H4, H5, and H1 are accepted with significant standardized coefficients supporting the argument of components of human capital at aggregate and individual levels to determine sustainable firm performance. These results suggest organizations invest in optimizing their organization’s human capital.

**Table 4**

Results of Bootstrapping for direct effect

<table>
<thead>
<tr>
<th>Path</th>
<th>Standardized coefficients</th>
<th>SE</th>
<th>P-value</th>
<th>95% CI LCI</th>
<th>95% CI UCI</th>
<th>Hypotheses</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>HC -&gt; FP</td>
<td>0.25</td>
<td>0.02</td>
<td>0.00</td>
<td>0.42</td>
<td>0.73</td>
<td>2</td>
<td>Accepted</td>
</tr>
<tr>
<td>HP -&gt; FP</td>
<td>0.35</td>
<td>0.03</td>
<td>0.00</td>
<td>0.53</td>
<td>0.86</td>
<td>3</td>
<td>Accepted</td>
</tr>
<tr>
<td>HS -&gt; FP</td>
<td>0.18</td>
<td>0.12</td>
<td>0.00</td>
<td>0.32</td>
<td>0.91</td>
<td>4</td>
<td>Accepted</td>
</tr>
<tr>
<td>HD -&gt; FP</td>
<td>0.32</td>
<td>0.13</td>
<td>0.00</td>
<td>0.61</td>
<td>1.23</td>
<td>5</td>
<td>Accepted</td>
</tr>
<tr>
<td>OHC -&gt; FP</td>
<td>0.52</td>
<td>0.09</td>
<td>0.00</td>
<td>0.51</td>
<td>1.13</td>
<td>1</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

*Note.* The table reports coefficient estimates from structural equation modelling for firm performance for survey questionnaires of 305 samples. The exogenous variables are HR competencies (HC), HR practices (HP), HR system (HS), HR deliverables (HD), and overall human capital (OHC), and the endogenous variable is firm performance (FP).

*Source: Calculation, self-survey (2021)*
Test of Mediation

In order to examine the indirect effect, i.e., the mediation effect of employee satisfaction, Sobel and Bootstrapping for the mediation effect was performed (Table 4) in SEM-AMOS. It was hypothesized (H6) that the higher the employee satisfaction, the higher their productivity and performance, contributing to firm performance. The result suggests that the indirect effects of employee satisfaction in association with overall human capital are statistically significant ($\beta = 0.547$ & p-value < 0.00, $z = 3.212$, CI at 95%, LCI = 0.529, UCI = 1.132); provided evidence to accept H6.

Table 5
Result of Sobel and Bootstrapping for Mediation Effect

<table>
<thead>
<tr>
<th>Path</th>
<th>Coefficients</th>
<th>P-value</th>
<th>Z-value</th>
<th>95% confidence interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>OHC -&gt; ES -&gt; FM</td>
<td>0.547</td>
<td>0.000</td>
<td>3.212</td>
<td>0.529 - 1.132</td>
</tr>
</tbody>
</table>

Note. OHC- Overall human capital, ES - Employee satisfaction, FM - Firm performance

These results are presented in a comprehensive model predicting job burnout by servant leadership in association with coping ability as the mediator (Figure 1).

Figure 1
Structural Research Framework

5. DISCUSSION

This study examined the direct impact of human capital on firm performance and the indirect impact of employee satisfaction in the relationship between human capital and firm performance in Nepalese life insurance companies. The result explored that the Nepalese life insurance companies are oriented toward human capital management practices though there are several issues to address. This study revealed a direct positive impact of human capital management on the firm’s performance. Research indicates that effective human capital management practices positively impact firm performance, including productivity, innovation, employee engagement, customer satisfaction, and financial outcomes. These findings highlight the importance of investing in human capital and implementing sound HCM strategies to achieve sustainable competitive advantage and organizational success, as suggested by (Barney, 1991).

Human resources management is the key strategy for the firm performance linking increased productivity (Huselid, 1995), innovation and creativity (Jiang et al., 2012), employee engagement and retention (Crook et al., 2011; Gautam, 2019), adaptability and flexibility (Wright et al., 1994) resulting enhancing quality of goods and service for customer satisfaction (Batt & Colvin, 2011). It also builds and holds the organizational culture (Schneider et al., 2013) for high employee morale and satisfaction. This develops the firms’ reputation and employer branding (Cable & Turban, 2001) and the firm’s financial performance (Jiang et al., 2012). The findings of this study align with the findings of these studies. Based on the resource-based view, different dimensions of human capital are found to be significant predictors of firm performance.
HR competencies have a significant impact on improving employees’ performance, which in turn contributes to the overall performance of the firm. These competencies consist of observable and measurable knowledge, skills, abilities, and personal attributes essential for HR professionals’ effectiveness. Such competencies include accountability, adaptability, communication, customer focus, quality focus, and leadership ability. For HR professionals, key competencies encompass strategic contribution, personal credibility, HR delivery, business knowledge, HR technology, and change management (Ulrich et al., 2008). Excelling in these competencies plays a crucial role in driving organizational success.

Notably, HR professionals proficient in strategic planning, analytics, and change management are instrumental in achieving strategic objectives and positively influencing firm performance (Lawler & Boudreau, 2009). The possession and demonstration of these competencies by HR professionals directly correlate with their ability to positively impact the organization’s overall performance (Ivancevich & Kleiner, 1999). This study highlights investing in developing human resources competencies to increase employee satisfaction and firm performance.

HR practices are essential strategic functions within human resource management that are instrumental in acquiring and cultivating competent human resources. These practices involve various organizational activities, such as recruitment and selection, HR planning, training and development, performance appraisal, reward management, and employee relations. The findings of the study stress firms to align their HR practices with strategic goals to achieve higher performance levels (Becker & Gerhart, 1996; Delery & Doty, 1996). The adoption of high-performance work practices significantly influences various dimensions of firm performance, including financial performance, operational performance, and innovation, as suggested by different previous studies (e.g., Combs et al., 2006). Furthermore, good HR practices aim to develop human capital, impact financial performance and influence employees’ work attitude and commitment reducing their occupational stress (Gautam & Gautam, 2022; Huselid, 1995). Organizations that invest in high-performance HR practices tend to experience lower employee turnover, higher productivity, and superior financial performance.

This study also highlights the importance of establishing effective HR systems to excel the firm performance. Supporting the resource-based view, this study provides evidence that firms incorporating supportive HR systems experience employee engagement, development, and performance, firms can achieve a competitive advantage and improve their overall performance. A well-functioning HR system serves as a valuable tool in optimizing human capital and contributing to sustained success for the organization. Design and implementation of an effective HR system, which involves alignment, integration, and differentiation, play a critical role in influencing a firm’s performance. This study, in line with previous research, supports the notion that an effective HR system encompasses various practices and policies related to talent acquisition, training, development, performance management, and employee engagement. Existing research suggests that well-designed HR systems can substantially impact a firm’s performance by reducing turnover and enhancing its competitiveness (Arthur, 1994). Key elements of high-performance HR systems, such as employee involvement, training and development, performance-based compensation, and flexible work arrangements, positively influence employees’ performance (Combs et al., 2006). As a result, improved employee engagement and performance contribute to the overall performance of the firm (Delaney & Huselid, 1996).

The mindset and behavior of the workforce, in combination with HR deliverables, play a pivotal role in shaping employee performance and organizational outcomes. By cultivating a growth mindset and implementing effective HR practices, organizations can create a positive work environment that encourages employee engagement, innovation, and continuous improvement, ultimately leading to higher firm performance and success. This
study aligns with previous studies (e.g., Paauwe & Boselie, 2005; Purcell et al., 2003) and argues against investing in developing HR deliverables for overall firm performance. Through the HR deliverables, firms can foster a growth mindset among their workforce and tend to experience improved innovation, risk-taking, and adaptability, leading to a positive influence on firm performance supporting the findings of notable research works (e.g., Blackwell et al., 2007; Bryce et al., 2014; Dweck, 2006). This study also supports the indispensable role of employee satisfaction from the investment in different dimensions of human capital development to enhance the firm performance. It supports the argument that higher employee satisfaction from human capital management leads to higher personal and firm performance.

6. CONCLUSION

This study concludes that human capital management is critical and multifaceted in influencing firm performance. Effective management of an organization’s workforce, encompassing recruitment, training, development, performance appraisal, and employee engagement, directly impacts various aspects of organizational success. Further, investing in human capital, nurturing employee skills, and fostering a positive work culture positively influence firm performance. A well-trained and motivated workforce tends to be more productive, innovative, and adaptable to changes in the business environment. Moreover, employee engagement and retention are enhanced, reducing turnover and retaining valuable talent.

Investing in human capital management is linked to financial performance and affects customer satisfaction, operational efficiency, and overall organizational effectiveness. Recognizing the importance of investing in employees, developing their skills, and promoting a positive work culture can significantly and positively impact organizational outcomes. Therefore, organizations should prioritize human capital management as a strategic imperative to optimize firm performance and gain a competitive edge in today’s dynamic business landscape.

7. IMPLICATION OF THE STUDY

This study contributes to enriching the resource-based view by highlighting the significance of human capital as a critical resource that drives firm performance. It can provide empirical evidence on how human capital management, including recruitment, training, and employee development, influences a firm’s competitive advantage and long-term success. Further, this study helps to strengthen the dynamic capabilities view, supporting the theoretical alignment that human resources are dynamic, which can be used to adapt to the changing business environment and use their overall performance and competitive position. In addition, this study contributes to extending strategic HRM models by identifying the key drivers and dimensions of human capital management that have the most significant impact on firm performance.

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Data Availability
Authors designate for non-sharing of data.

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