# A Study of the Impact of Human Capital Investment on Organizational Performance

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**Abstract.** Human capital investment is a process in which a company, after obtaining external resources, learns and develops the knowledge, skills, abilities and attitudes of its members, thus enhancing the company's core competitiveness and sustainable development capability and ultimately improving organizational performance. Employee quality is an important part of human capital investment, but the effect of human capital investment on performance improvement is affected by the low level of internal management. The article researches the relationship between human capital investment and enterprise performance,and puts forward corresponding suggestions on the quality of employees and performance improvement.

**Keywords:** Human capital investment; Organizational performance; Performance management.

## 1. Introduction

It’s widely recognized that investing in employees can have positive performance-related effects on an organization. In the past, investing in employees within a company has been the primary, most efficient and effective way to grow a company, while the results of corporate investments can also help organizations achieve long-term strategic goals and enhance the competencies and capabilities of their employees. Organizational equilibrium theory suggests that the survival of an organization depends on its "success in arranging payments to its participants sufficiently to motivate them to remain engaged", whereby employees are motivated to stay with and contribute to the organization as long as the rewards offered equal or exceed the expected contribution.

Human capital is the capital invested by an organization in the education, training, and health care of its employees. Human capital itself represents the total value of an organization's human resources and is made up of employees and their ability to have the ability to perform their job duties as well as tasks. When an organization is running smoothly, the investment in human capital increases with the increase in financial capital, thus accumulating more human capital for the organization. Organizational performance is an important area of business management research and an important indicator of business efficiency. Members of a high-performing organization should be able to manage the tasks and responsibilities traditionally assigned to managers and supervisors and are usually trained in technical, managerial, interpersonal, decision-making and problem-solving skills.

Investment in human capital is the total value of a company's human resources. Due to individual differences, employees develop different characteristics.How to adapt these individual characteristics to the job so as to bring maximum benefits to the organization is the focus of human resource management[1].

Organizational performance is a complex multi-level conceptual system, there are layers of driving relationships within performance, and different human capital investment methods and strategies will affect organizational performance from different perspectives, so clarifying the role of organizational human capital investment in organizational performance has a certain significance in guiding the management and decision-making of the organization in terms of the overall scale, direction, methods and approaches of human capital investment[2].

# 2. Definition of the concept and theoretical foundation

## 2.1. Definition of the concept

### 2.1.1 Organizational performance

Organizational performance refers to the achievements made by the organization in a certain period of operation, including the organization's business performance and economic efficiency. The meaning of organizational performance is relatively broad, and can be roughly divided into three kinds, one refers to the economic efficiency of the organization; the second can be divided into the organization's financial performance and non-financial performance, reflecting the organization's level of operation and management, and the last one, i.e., the organization's operation of all the financial results, is a comprehensive reflection of the financial performance of the company and the performance of the management. Due to the different cognitive and evaluation methods, there will be different understanding of the evaluation of the performance of the organization, therefore, about the measurement of organizational performance has been a worthy of discussion in the economic and management circles.

Organizational performance is a complex system that can be analyzed in terms of organizational structure, organizational culture, organizational management, organizational behavior, organizational design and organizational environment. Organizational structure refers to the framework of the organization, which determines how the organization achieves its efficiency, effectiveness and efficacy; organizational culture refers to the thoughts, behaviors and beliefs of the organization's members; organizational management refers to how effectively the organization's goals are achieved; organizational behaviour refers to the behaviour of the organization's members; organizational design refers to how efficiently the organization achieves its goals; and the organizational environment refers to the external environment that the organization finds itself in, which also influences the organization's performance.

At the same time, organizational performance is a comprehensive indicator of the degree of achievement of stated goals. Snell argues that it is worthwhile to further discuss the relevant aspects of organizational performance-namely, organizational leadership, internal trust relationships, and interpersonal relationships within the organization[3]. Northouse argues that a leader is a process of communication to achieve organizational goals[4]. He further concluded that a leader should have five distinctive characteristics: intelligence, self-confidence, decisiveness, honesty, and social competence. Freese and others verified through empirical studies that the level of corporate commitment and fulfillment of organizational responsibility significantly affects employee motivation, which in turn affects organizational performance[5].

### 2.1.2 Investment in human capital

Human capital is the knowledge, expertise and skills that a person accumulates through education and training. The concept of human capital was first introduced by Theodore Schultz in the early 1990's as a way to explain the advantages of investing in education on a national scale.

Gary Becker's book Human Capital elaborated on the concept of human capital in the context of neoclassical economics. It suggests that investment in manpower can be viewed as similar to investment in other means of production such as factories or mines. Human capital theory suggests that it is the key competencies, skills, knowledge and abilities of employees that constitute the competitive advantage of an organization. The theory considers education as an investment because of the perceived potential for private and social benefits[6]. Regarding the definition of human capital, Alchian considered the skills, experience and abilities of all employees of an enterprise from the perspective of the enterprise as the basic factors that make up the human capital of the enterprise, which is an inexhaustible driving force for the growth and progress of the enterprise. In the research of domestic scholars, Li classified human capital into four categories: general, skill, managerial and entrepreneurial human capital[7]. Li defines human capital in his work in this way: human capital

includes the health and experience possessed by the human body itself, but also includes the value created by the human being himself[8].

From the perspective of the enterprise, group skills, creativity and problem-solving abilities, as well as leadership and business management skills, etc., are manifested through the concentration of the talents of individuals in the enterprise, and this individual talent constitutes a talent asset, the value of which is known as human capital. The results of the study by Brinckmann indicate that human capital investment based on work experience or experience leads to superior performance[9].

In the perspective of individual characteristics, the focus is on exploring the impact of knowledge and experience, competencies, attitudes, etc. on organizational human capital. e.g., Smith clarified that formal education and work experience allow employees to acquire competencies, intelligence, and skills, which in turn establishes the level of the organization's human capital[10]. wright and Boswell clarified that individuals who are able to leverage on their learning abilities and education tend to have better job performance[11]. Shin and Zhou stated that human capital diversity is related to the level of creativity[12]. Pickett showed through a scale analysis that employees with low employee engagement scores have difficulty in contributing their full strengths in a given situation[13]. Bontis and Fitz-Enz stated that employee satisfaction is an important prerequisite for various human capital and knowledge management outcomes[14].

Summarizing the current definition of human capital by scholars at home and abroad, human capital can be studied from two perspectives: macro-level and micro-level, and at the same time, it can be found that the difference between human capital and physical capital lies in the fact that human capital is a capital dependent on human beings, whereas physical capital is a capital that is carried by material; human capital is possessed through acquired learning and cultivation, whereas physical capital is possessed in its own right; Human capital is susceptible to the subjective will of man, while physical capital is only affected by objective factors.

### 2.1.3 The relationship between human capital investment and organizational performance

According to the above review of domestic and international literature, scholars have studied the relationship between human capital investment and organizational performance from multiple perspectives. It can be seen that the research on organizational human capital investment is along the path of Schultz and Becker, selecting a series of indicators to define and portray the human capital investment activities of enterprises.

In addition, some scholars in China have used empirical research methods to analyze the correlation between human capital and enterprise performance, and with the trend of quantitative research methods, a large number of scholars have also focused on the measurement of the role of enterprise human capital on enterprise performance. For example, Li found that human capital and enterprise performance of listed companies in different industries in China have a positive correlation; while within the same industry, the performance of enterprises with high human capital stock is not necessarily better than the performance of enterprises with low human capital stock[15]. Xu divided the factors affecting enterprise performance into enterprise human capital, enterprise governance structure, enterprise-specific variables, industry type and ownership factors, and found through quantitative analysis that the degree of correlation between human capital and enterprise performance varies in different industries, and that the outflow of human capital in some industries has precisely a facilitating effect on the improvement of enterprise performance[16].

## 2.2. Theoretical foundation

### 2.2.1 Theories related to human capital

Human capital originated in the 1950s and 1960s, and was more systematically elaborated in 1960 by Nobel laureate economist Schultz. He claimed that human capital is formed by investment in education and health, and that the role of investment plays a key role in the process of human capital formation, and that the promotion of workers' quality through investment in health education will promote economic development. Becker is also an important founder of human capital theory, who

has been committed to studying human behavior with the concepts and methods of Marxist economics, and proposes that human capital, in addition to knowledge and skills, as well as health and life, is also a kind of capital with a high degree of humanization, which is specifically expressed in the individual's ability and literacy, while its productivity depends on the individual's labor.

In domestic research, Ma believes that the income distribution effect and economic growth effect of human capital is the focus of the evolution of human capital theory[17], and the formation of human capital is the individual's choice and education from the micro level, and from the meso level, it is the result of practical learning, and the individual contributes to the formation of human capital in the continuous accumulation of learning. In 2019, Ren Zhengfei, in an acceptance interview, he proposed that the future competition is mainly the competition of education, which in turn raised the national awareness of human capital. With the continuous deepening of management theory, the concern of enterprise managers for enterprises has gradually shifted from "interests" and "material" to "people", "knowledge" and "skills".

Summarizing the research on human capital by scholars at home and abroad, we can conclude that the main points of human capital theory are as follows: the formation of human capital is mainly accomplished by investment in education and health, etc.; human capital promotes the growth of the national economy, and the most important source of social and economic growth is the accumulation of human capital; human capital is a kind of highly personalized capital, which is possessed by the laborers and inseparable from themselves; in all social resources, human capital is a kind of capital which is highly personalized and inseparable from themselves. Human capital is a kind of capital with highly personalized characteristics, which is owned by the workers themselves and is inseparable from themselves; among all social resources, human capital is the most important one, and the theory related to human capital is the core research problem of economics.

### 2.2.2 Theories related to human capital

Wernerfelt put forward the theory of enterprise resource foundation in 1984, and he believed that the resources possessed by the firm, the size of the firm's holdings and the different ways in which firms are allocated are the main reasons for performance differentiation. The theory of enterprise performance differentiation argues that core competencies must be developed in order to gain a competitive advantage in a competitive marketplace.

Throughout the domestic and foreign scholars' research on enterprise performance, Delianey and Huselid, Armstrong and Vashishtha, etc. have used accounting performance such as return on assets to measure the performance of enterprises, but this measurement method can only reflect the financial performance of enterprises, and can not specifically show the business situation of enterprises, which has certain limitations. Therefore, Tobin constructed Tobin's Q value to reflect the performance of enterprises, Tobin's Q value can reflect the competitiveness of enterprises and the expectations of the future development of enterprises, so it is very popular with later scholars, and Tobin's Q value has been used by more and more scholars to measure the performance of the company. The research on enterprise performance by scholars in China started late, but more and more results have been achieved. After reviewing the relevant research of foreign scholars, Meng started from the national conditions of China and the current situation of the development of the socialist market economy, and combined financial and non-financial indicators of the company, and used a combination of qualitative and quantitative methods to assess the performance of the company, which made the evaluation results more consistent with the actual situation of enterprise development[18]. Suo and others categorized corporate performance into market performance, financial performance, learning and growth performance, and operational performance, and used factor analysis to conduct a comprehensive analysis[19].

## 3. Conclusions and research perspectives

According to the above research, the vast majority of studies and scholars still affirm the significant role of human capital investment on enterprise performance. And the play of these

significant roles requires the support of the practical activities of enterprise human resource management, including the implementation of a series of professional skills, and the implementation of these professional activities will lead to a better enhancement of enterprise performance by enterprise human capital investment[20]. First, all existing studies are based on the importance of enterprise human capital investment on enterprise performance; second, the regulations on the form and content of enterprise human capital investment are not uniform; third, there are differences in the regulations on enterprise performance in this field; fourth, the research methodology has gradually shifted from qualitative to quantitative empirical research, but due to the differences in the various concepts, the generalizability of the research conclusions is is poor. As a result, further research can be conducted on aspects such as the path of human capital investment in enterprises affecting enterprise performance.

Based on the above study, some human capital investment strategies can be proposed to improve organizational performance. These strategies mainly encourage organizations to invest in absorbing, maintaining and motivating human capital to improve the skills of organizational members and improve their interpersonal relationships. For the interaction between organizational performance and human capital investment, it is recommended that each company adopt a strategy that is appropriate and practical for its situation. This will improve organizational performance and increase the return on investment. Therefore, on the basis of the above research, this paper offers several recommendations for further reference.

### 3.1. Employee Skills Improvement

The findings of the study revealed that education, training, knowledge management and skill development are all significantly related to organizational performance. Investment in human capital is a tool for value creation and a human capital risk management strategy for achieving sustainable organizational performance. Inadequate training affects individual performance as well as organizational performance. Employers should develop their employees by training them and giving them the opportunity to acquire employable skills within and outside the organization. Most organizations do not conduct an effective training needs analysis to support their on-the-job training. The results indicate that there is a need to support career development and provide opportunities for it. Therefore, relevant training has a direct positive impact on the performance of employees and their organizations. By investing in human capital, firms can improve the skills of their employees, increase productivity, and enable them to achieve effective resource utilization, thereby improving organizational performance. By providing training and retraining, enterprises can improve the skills of their employees, thus increasing the productivity and competitiveness of the organization and achieving the goal of improving organizational performance.

### 3.2. Establishment of corporate culture

Investment in human capital not only improves the skills of employees, but also contributes to the establishment and development of an enterprise's culture. Enterprise culture is an important factor in enterprise performance, which can enable enterprises to have consistent values, codes of conduct and guiding ideology, so that they can form competitive advantages from various aspects, such as technology, management and culture, and thus achieve improved organizational performance.

### 3.3. Improvement of incentives

Enterprises can improve the incentive mechanism by investing in human capital, so that employees are more motivated and proactive in their work, thus achieving the purpose of improving organizational performance. In the process of developing incentive mechanisms, while considering the financial compensation and emotional appeasement of employees, the design of the above incentive mechanisms should be tested in practice to see if they help to realize the value of the company[21]. When taking various measures to encourage employees, not only one method should be used, but the different needs of employees at different times should be observed and other incentives

should be implemented to complement each other. Proper planning should also be carried out to give full play to various incentives and continuously improve the employee incentive mechanism.

In summary, human capital investment has an important impact on the performance of enterprises, which can improve organizational performance by improving employee skills, establishing corporate culture and improving incentive mechanisms. As the downward pressure of economic growth continues to increase, the competition between enterprises is becoming more and more intense, accompanied by the continuous progress of science and technology, enterprises have to pay attention to self-innovation, improve organizational performance, so enterprises should take stock of the situation, according to the economic and social development of the choice of human capital investment strategy suitable for their own, pay attention to the innovative behavior of the staff, which is conducive to the enhancement of organizational performance and the future development of the enterprise.

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