

How Economic Development can be Accelerated through Effective Management of Human Resources? An Insight

Sri Lanka Journal of
Economic Research
Volume 7 (2) June 2020
SLJER 07.02.P: pp. 131-140
Sri Lanka Forum of
University Economists
DOI: <http://doi.org/10.4038/sljer.v7i2.118>

K.A.S. Dhammika

*Department of Human Resource Management, University of Kelaniya
Kelaniya, Sri Lanka*

Email: kasdhammika@kln.ac.lk



Achieving Economic Development has been the main objective of every developing country for which various economic and political systems are adopted over the past decades by those countries. However, most of those countries are still struggling for achieving the economic development even though they have succeeded in some aspects of the economic development process. Sri Lanka has no an exemption in this regard when it come to the key aspects of the economic development such as volume of GDP, Growth Rate, Per Capita Income, Poverty Alleviation, Capital Accumulation etc., though the country can please with respect to the Human Capital Development aspects such as education, health, life expectation and quality of life.

It seems that the country has followed the right path on the development continuum over the past decades transforming the country's economy from Agri based economy to Industrial economy to service economy now. In 2019 report of the Central Bank of Sri Lanka, it records that the service sector accounts for 57.7% of the GDP of the country while Industrial sector and agriculture contribute 26.1% and 7.0% respectively. However, it is evident that the country is struggling to achieve a satisfactory level of growth rates over the past years even though some internal and external factors stood unfavorable for the country. As an example, the economic growth rate of the country over the three years as an example, recorded 3., 2, 4 respectively. Some economist claimed that Sri Lanka has reached to what they refer as "Middle Income Trap" for which we need a comprehensive economic strategy for breaking the deadlock and achieve a higher growth rate.

Various aspects and factors have been highlighted as strategies for higher economic growth. Among them are export oriented economy, technology-based industrialization, knowledge economy, innovation and macro market approach, and Human capital development. No doubt, the economic strategy should address all these aspects simultaneously for achieving and sustaining a higher growth rate, a must for the development of the country in future. However, among these, the human

resource of the country seems to be promising, given the fact that, first, Sri Lanka is endowed with highly educated population, and second, the economy of the country is largely service based. Hagen (1986) proposed six strategies for economic development namely, (1) foreign trade, (2) technological transfer, (3) resource allocation, (4) structural transformation, (5) human capital formation, and (6) savings and investment among which human capital formation stands as pivotal making a interaction among others.

Harrison (1973:3) posited

“Human resource constitutes the ultimate basis for the wealth of a nation’s capital. Resources are passive factor of production; human beings are the actives agent who accumulate capital, exploit natural resources, build social, economic, and political organization. Clearly, a country which is unable to develop the skills and knowledge of its people and to utilize them effectively in the national economy will be unable to develop anything else”.

How human resources or human capital formation accelerate the economic development of a country. The objective of this paper is to examine the ways of how managing of human resource can contribute to the enhancing the economic development of the country. This paper will discuss the main areas of Human Resource Management (HRM) and Human Resource Development (HRD) as contributors for economic development.

1. Human Resources Management (HRM) particularly at national level will improve the factor productivity through effective deployment and mobility of human resources through economic sector of the country. This will improve the productivity of the concerned sector making a significant contribution to the economic development of the country by first, shifting the human resources form less productive sectors to high productive sector. For an example, it seems that employment in the industrial sector and service sector of the country is increasing while it declines in the agricultural sector. This happens along with the growth and the expansion of the respective sectors which is a healthy human resource mobility in the economy. Second, the development of human resource, i.e. placing the right person to the right jobs will improve the productivity of those jobs resulting in a higher productivity in each sector. The improvement of productivity of the high productive sectors of the economy will accelerate the growth rate in those sectors.

2. Human Resource Development (HRD), which is branch of HRM, will increase the human capital formation of a country if it happens in a planned manner. Human capital is defined as the productive investments in humans, including their skills and health, that are the outcomes of education, health care, and on-the-job training (Todaro, 1994). The accumulation of human capital will improve the organizational effectiveness resulting in economic development. As an example, consider the international business sector of a country. If the corporate sector of a country will go for internationalization of their business with right strategic management insight, it will improve the external sector of the country resulting in expansion of earning and foreign capital formation. This is a vital aspect for economic development of a country in globalized world context. Thurow (1996) posits that countries wishing to develop and succeed in the future must begin to make long-term plans and commit major resources as investments in the education and the high skill formation of their society.
3. Economies emerging as knowledge economies seems to have an accelerating growth of their economies and a sizeable number of countries is in the process of transferring their economies to knowledge economies. Felin, Zenger, and Tomsik, (2009) claimed that across a broad range of disparate literatures, a consensus has emerged that our society is moving toward a postindustrial or post bureaucratic society in which knowledge and information drive economic growth. It defines the knowledge economy as production and services based on knowledge-intensive activities that contribute to an accelerated pace of technical and scientific advance, as well as rapid obsolescence. The key component of a knowledge economy is a greater reliance on intellectual capabilities than on physical inputs or natural resources. As per this definition, the economies with knowledge intensive industries based on intellectual capability of its human resources would achieve higher growth particularly in external sectors. South Korea, Japan, China, India, and Malaysia can be cited as some of the countries having comparatively higher knowledge-based economies. The degree of the intellectual capability is a function of the level of the human resource development of that country. If a country invests in human capital development in education and training in a planned manner as it requires for the country, it will improve the intellectual capability of the country leading to creating of new businesses in both internal and external sector. As an example, the Information Technology (IT) can be sited. One of the emerging sectors in IT is developing of online computer games with sort of artistic features. If we can develop these game

designers with entrepreneurial skill, they will create on line business which will be a vital sector, actually an emerging sector of the economy of the country.

4. Inventions and innovations have a critical role in today's highly integrated and diversified market particularly in global market. If we can increase the number of inventions and innovations and commercialization of them, that will improve the trade volume since they lead to value creations, contributing to the expansion of the GDP. We need higher investment or spending on research and development for this purpose. This should happen both at national and corporate sector. This is an area where HRM matter a lot. Thompson (2018) claimed innovation has been the engine of growth in countries such as Austria, Finland, Sweden, the United Kingdom and the United States, between 1995 and 2006 (OECD, 2010), and, in their search for sustainable sources of economic growth, more industrialized and emerging nations are expected to become innovation economies. Inventions and innovations expand the value chain of the production process which results in creating and expansion of new business resulting in higher growth of the economy.

The role of HRM in this regard is to assess, identify, motivate, and guide the value creating process through inventions and innovations. HRM and HRD poster the innovation and inventions by creating innovative culture in organizations and developing innovators both at national and organizational level. The contribution of HRM for Innovations and creativity comes from recruitment and selection, performance management, training, and development and largely through strategic HRM.

5. Social Capital. Social Capital (SC) is one of key aspects of human resource development at individual and corporate level. Social capital is defined as the set of network-based processes, built upon generalized trust, that influence the ability of a country's inhabitants to share, cooperate and coordinate actions. In short, social capital is generalized trust and its networks (Thompson, 2018). Creating a trusting and sharing environment both at organizations and national level is a key function of professional HR strategists.

The effect of social capital for economic growth can be identified at both Micro and Macro Level. Thompson (2018) claimed that regarding microeconomic channels, trust and cooperation within the firm, industry or market may lower transactions costs, help enforce contracts and improve credit access. This is what is called the Synergy at organizational level. The socio capital will increase the

corporation among the organizations such a manner that they will find the way to maximize the overall efficiency of the network. The overall value chain will improve further in term of cost, service, delivery, quality etc., so that the concerned industry will be expanded.

At the macro level, the effect of social capital on economy might come from different frontiers, First, social capital can increase the effectiveness of economic policies (Easterly & Levine, 1997). Since sharing of information between parties based on trust happens with high social integration, the outcome economic policies will be more realistic, and context bounded. Second, social capital will increase the level of innovations making a strong effect on economy. Akçomak and Weel (2009) argue empirically that, by facilitating interaction, cooperation and sharing, social capital influences innovation, thereby impacting on economic growth. As a result, the economy will be benefited with higher innovations in business sector and even with social sector.

6. Poverty Alleviation. One of the key objectives of economic development is to reduce the poverty of its population enhancing equal opportunity for economic engagement and income distribution of the country. According to a study of the World Bank, poverty incidence is greater than 16% if the bread earner in a household received less than 6 years of education; it decreases to 7% in the case of 6–9 years of education, and further to 2.5% in the case of 9–12 years of education; poverty is almost unlikely for a household with the laborer having received more than 12 years of education. People have started to realize that empowering the poor and capacity building are conducive to reducing the incidence of sinking back into poverty, consolidating anti-poverty achievements, and improving the sustainable development of the poverty-stricken population and regions (Eryong, & Xiuping, 2018).

HRM and particularly HRD acts as a mechanism for poverty alleviation through enhancing the capacity of people through education and training and development. Enhanced human capacity will expand the opportunities available for them to engage in productive economic activities resulting in creating and sharing of economic benefits of the country. The economic engagement of talented people does not limit to a domestic activity, but they will have more opportunities in other countries as well. It is true to posit that the opportunities will be more for talented people in globalized economic context than in the

locally. Further, those who work in foreign countries can earn more than the domestically employed counterparts since they earn in foreign currency.

However, to achieve this poverty reduction objective through HRD, there should be a national human development plan in line with the countries long-term economic development plan. The country should look at not only the domestic situation, but also the global situation if it needs to reap the full benefits of HRD in poverty alleviation.

7. **Social Development.** The concept of social development is an integrated part of sustainable development prescribed by the United Nations as one of the Millennial goals. Parise, (2007) cited four components of sustainable development, namely, environment development, economic development, individual development, and social development linking each other. HRM and particularly HRD is instrumental here for both individual and social developments with an integrated effect on other two sides.

Chow (2004) defined social development as process of leading transformation into the social system and institutions. It is having the objective of improving the capacity of societal members both individual and organizations according to the objective of the country. Social development implies qualitative change of the peoples in terms of serving the country through effective execution of the responsibilities assigned to social entities. This is to say that the people of the socially developed countries perceive that the development of their country is a part of their responsibility. For instance, residents of the countries like USA, UK, China, India, Australia and many other developed and developing countries are considering economic growth as one of the major responsibilities (Krypa, 2017). As result, the productive economic engagement of the individual and corporate citizens will be high resulting in enhanced economic dynamism.

What is the role of HRM and HRD in particular in the social development process? since HRD strategies are including factors like “economic, social, political, cultural, educational, physical, biological, mental and emotional traits of the peoples related to any organization or country economy” (Kurihara, 2008), HRD will facilitate the change of the overall mind set of the people and management philosophy of the institutions. This is a sort of capacity building process of individuals and institutions for higher productivity and achievement of outcomes. On the other hand, this is relating to motivating of constitutes of the society for higher achievement.

8. Performance Management. Performance Management (PM) is one of key aspects of HRM where the focus will be placed on achieving and maintain higher level of performance in people in organizations. PM is defined as an integrated approach to ensure that an employee's performance supports and contributes to the organization's strategic aims (Dessler, 2019). Performance management's goal is to create an environment where people can perform to the best of their abilities to produce the highest-quality work most efficiently and effectively. However, performance management involves development of work systems in organizations so that the strategic performance of organizations is enhanced.

The relationship between PM and economic development is quite linear. The key player of any economy is the corporations both in private and public sector operating in various sector of the economy. if they are performing well which is largely based on the performance of the human resources, the performance of the economy is enhanced. As an example, it is a noted fact that the loss-making corporates in the public sector in Sri Lanka, make a negative impact on economy since it is imposing a burden on the budget of the country. If it happens in other way round, it will be an impetus to the national economy. The role of performance management is instrumental for higher corporates' performance which is necessity for economic development.

9. Talent Management. Managing the talent is one of the aspects of strategic human resource management which is contributing to the economic development in many ways in developing economies. Loosing of key latent at national level which is generally term as "Brain Drain" would be a barrier for economic development. common wisdom suggests that the migration of people endowed with a high level of human capital, the so-called brain drain, is detrimental for the country of emigration (Beine, Docquier, & Rapoport, 2001). This is highly materializing if a country loses its talent in the key economic areas of it. Talent migration might be caused by some factors among which the lack of opportunities for productive engagement is one of key factor.

The level of brain drain can be minimized if an effective talent management system is operating in the corporate sector of the country which is a part of strategic HRM. Collings, and Mellahi, (2009). define strategic talent management

"As activities and processes that involve the systematic identification of key positions which differentially contribute to the organization's sustainable

competitive advantage, the development of a talent pool of high potential and high performing incumbents to fill these roles, and the development of a differentiated human resource architecture to facilitate filling these positions with competent incumbents and to ensure their continued commitment to the organization”.

As described by this definition, strategic talent management deals with development of talented people and giving the suitable opportunities for them to contribute productively for the development of the organizations of the country reducing the brain drain in long run.

Achieving of economic development and sustaining the economy is one of the key objectives of every developing country irrespective of their nature. Different countries have implemented various economic strategies for achieving this objective. Sri Lanka, as a developing country has been implemented various strategies for economic development over the past decades. This paper highlights the fact that the economic development of the country can be accelerated if it can manage its human resources effectively. The ways that HRM can contribute to the economic development are through

1. Development, deployment and mobilizing the human resources from less productive sector to high productive sectors
2. Formation of human capital through human resource development
3. Transforming the countries economy to a knowledge-based economy through knowledge intensive industries.
4. Increasing the level of innovations and inventions of the country resulting in new venture creation
5. Increasing the social capital of the country particularly in the corporate sector resulting in increasing the efficiency of the value chain
6. Contributing to the poverty alleviation through increasing the economic opportunities for people
7. Contributing to the social development which is one aspects of sustainable development
8. Enhancing the performance of the corporate sector through performance management system
9. Reducing the level of latent leakage (Brain Drain) through strategic talent management process

References

- Akçomak, I.L., Weel, B., 2009. Social Capital, innovation, and growth: Evidence from Europe. *European Economic Review* 53, 544–567.
- Beine, M., Docquier, F., & Rapoport, H. (2001). Brain drain and economic growth: theory and evidence. *Journal of development economics*, 64(1), 275-289.
- Collings, D. G., & Mellahi, K. (2009). Strategic talent management: A review and research agenda. *Human resource management review*, 19(4), 304-313.
- Dessler, G. (2019). *Human Resource Management, Global Edition*. Pearson Education Limited.
- Eryong, X., & Xiuping, Z. (2018). Education and anti-poverty: Policy theory and strategy of poverty alleviation through education in China. *Educational Philosophy and Theory*, 50(12), 1101-1112.
- Easterly, W., Levine, R., 1997. Africa's Growth Tragedy: Policies and Ethnic Divisions. *Quarterly Journal of Economics* 112, 1203–50.
- Felin, T., Zenger, T. R., & Tomsik, J. (2009). The knowledge economy: emerging organizational forms, missing microfoundations, and key considerations for managing human capital. *Human Resource Management: Published in Cooperation with the School of Business Administration, The University of Michigan and in alliance with the Society of Human Resources Management*, 48(4), 555-570.
- Hagen, E. E. (1986). *The economics of development*. Homewood, IL: Irwin
- Harbison, F. and C.A Myers (1964): *Education, Manpower and Economic Growth*. New York; Mc Graw – Hill Book of Company.
- Krypa, N. (2017). Social economic development and the human resources management. *Academic Journal of Interdisciplinary Studies*, 6(1), 73.
- Kurihara, Y. (2008). *Information technology and economic development*. Hershey: Information Science Reference, New York: Morrow
- Parise, S. (2007). Knowledge Management and Human Resource Development: An Application in Social Network Analysis Methods. *Advances in Developing Human Resources*, 9(3), 359-383.

Schultz, T. W. (1961). Investment in human capital. *The American economic review*, 51(1), 1-17.

Thompson, M. (2018). Social capital, innovation, and economic growth. *Journal of behavioral and experimental economics*, 73, 46-52.

Thurow, L. C. (1996). *The future of capitalism: How today's economic forces shape tomorrow's world*. New York, Morrow