



## IMPLICATIONS OF HUMAN CAPITAL DEVELOPMENT FOR COMMERCIAL BANKS IN NIGERIA

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### Abstract

*This paper reviews existing research to ascertain the effect of human capital on growth, profitability and competitive success of Nigerian commercial banks. This is because in Nigeria, the banking sub-sector plays a critical role in channeling monetary resources to other sectors of the economy for the creation of wealth. However, Modern Nigerian banks are technology-intensive mostly in a bid to sustain Nigeria's cashless policy. In view of this fact, the objective of this paper is to determine the link between human capital and commercial Bank's growth and profitability. Hence, the paper adopts a documentary and content analysis methodology to achieve its goal. Literature evidence found supports that investment in human capital has positive correlation with higher returns and better performance in the banking industry. In view of the positive link between human capital and growth and profitability of banks, this paper recommends infusion of core bank staff into intensive software application sessions as well as information and communication technology training programs.*

### 1. Introduction

Economics literature upholds that banks are essential facilitating institutions of development in every country in the world. In Nigeria, the banking sub-sector plays a critical role in channeling monetary resources to other sectors of the economy for the creation of wealth. The banking sub-sector in Nigeria is characterized by high incidence of modern technology. Hence, for Nigerian banks to sustain their critical role in economic development, they have to build a stock of human capital that possesses the skill and talent for driving the advanced technological platforms utilized for modern banking

operations. Of recent, the re-design of the naira currency and the total implementation of the cashless policy revealed deep rooted problems bordering on low human capabilities. For example, bank staff not used to handling large volumes of fund transfers found themselves working triple time to sustain productivity.

This means that banks stocked with low quality of employees may not be able to improve investors' returns and profitability. In view of this, Ezekwesili & Ezejiofor (2022) and Ghosh (2016) observe that the main issue challenging banks in recent times is how to improve their returns from investments and guaranty control of

their existing market share. This is because globalization broke down entry barriers, which as a result ceded sizeable amounts of investment, control and market portions to new entrants. In relation to this, Gimba & Anyanwu (2022), Sanusi (2012) and Ogunleye (2010) argue that institutional factors consisting of lapses in managerial capacity and poor work force quality and low human capital inputs may be the possible causes of low performance in the banking sub-sector. Likewise, CBN (2013) indicate that, recurring operational and system breaches may have resulted from poor understanding of basic banking procedures, and inadequate comprehension of banking protocols.

Apart from the practical problems stated above, there are also theoretical issues leading to this study. Previous studies (Abbas, 2012; Aktar et al., 2012; Sun and Nam, 2011; Rehman; 2011; Rawashdeh and Al-Adwan, 2012; Alkalha et al., 2012; Bhatt, 2012) examined aspects of human resource development in banking institutions but they concentrated either on developed countries or countries other than those of Sub-Saharan Africa. This denotes a major gap in the literature on emerging market of Sub-Sahara Africa. Hence the question: Could a study from the economies of Sub-Saharan Africa reveal different results from outcomes of studies on Europe, Asian and the Western nations?

Economics literature concerning the human capital theory acknowledges the role of increasing human capital for the purpose of affecting firm's productivity and profitability for sustained economic growth and development. Likewise, within the resource-based view theory, the management literature recognizes human skills and knowledge as potential sources of strategic performance. This implies that both academic and corporate experts recognize that human capital is a critical factor that can improve firm performance. This paper contends that in light of recent challenges, the growth of Nigerian banks is contingent upon their stock of human capital. Hence the aim of this theoretical

paper is to identify from existing literature evidence of the implications of human capital to the growth and development of the Nigerian banking sub-sector. The specific objective of this paper is therefore to determine the link between human capital and commercial bank's growth and profitability.

## **2. Literature Review**

This paper relied on a literature review analysis methodology to examine implications of human capital on profitability and performance of Nigerian commercial banks and the associated human capacity problem. From the insights gained from this review, conclusions were drawn. The review bounds to only literature guided by the human capital theory and the resource-based View theory.

### *2.1 Human Capital Theory and Resource-Based View Theory*

This paper is grounded in a combination of postulates, assumptions and constructs based on economics and management theory. It draws from the Human Capital Theory (HCT) mainly because the theory enables research into the effect of human capital at the firm level. That is the HCT posits that firms can improve performance by increasing their human capital stock (Marimuthu et al., 2009; Knudsen and Lien, 2015). Dae-Bong (2009) stressed three viewpoints of categorizing human capital, which based on the individual aspect, on human capital itself and the accumulation process of it, and on the production-oriented perspective of human capital. Considering the production-oriented perspective, Sheffin (2003) notes that, the human capital is 'the stock of skills and knowledge embodied in the ability to perform labour so as to produce economic value' while, Romer (1990) referred to human capital as 'a fundamental source of economic productivity' and others like Frank and Bemanke (2007) defined human capital as 'an amalgam of factors such as education, experience, training,

intelligence, energy, work habits, trustworthiness, and initiative that affect the value of a worker's marginal product' Dae-Bong (2009).

To complement the human capital theory, this paper is also guided by the assumptions of the Resource Based View theory (RBV). In this paper acknowledged principles of the resource based view theory are exploited to complement the human capital theory in developing the link between human capital development and bank performance. A review of management literature shows that the resource based view theory states that firms typically have varying combinations of resources at their disposal which would explain the different levels of performance among competing firms. And that resources which create value are rare and non-substitutable generate sustained competitive advantage for firms (Bondarouk et al., 2015; Nothnagel, 2008; Iqbal and Ahmad, 2016; Wernerfelt, 1984; Ferriera et al., 2010; Newbert, 2007; Lado and Wilson, 1994; Wright et al., 2001). The RBV is suitable for this paper because it is a model which emphasizes internal firm assets mainly human capital as a means to increase the competitive advantages gained by a firm and that qualifies it as a model for firm performance (Pearce and Robinson, 2007).

The postulates of both HCT and RBV theory imply that the success and productivity of the banking system depends on the efficiency of its workers. In finance and economics, operational and financial performance of the banking sector depends on the stock and quality of human capital assets they possess. This entails that low-performing banks stocked with low quality of employees may not be able to improve investors' returns and profitability. It also means that banks having low quality managerial skills may not be able to sustain credit intermediation and trade facilitation at the global, regional or country levels.

## 2.2 Human Capital Development in the Nigerian Banking Industry

Economics and management literature argue that human capital attributes such as training and development, education, medical and health care, safety, nutrition, employees welfare, and managerial skills influence firm performance. Thus, both the human capital theory and resource-based view theory suggests that human capital elements should impact on the earnings of employees and profitability of commercial banks. However, a relatively small number of studies investigated human capital development issues in Nigerian commercial banks. Most of them limited to the relationship between aspects of human resource development and employee productivity. For example Abiodun et al. (2011), Ebimobewe et al. (2012), Odumeru and Ilesanmi (2013), Yahaya (2007), Sotunde and Salami (2012) examined the influence of training on employee productivity. These works however, provide insufficient information for effective investment and policy decisions. This is because their outcomes do not demonstrate the relationship between human capital elements and bank performance.

Ojo (2011) found a positive link between rewards the observed proxy for strategic human resource practice and performance. Muktar (2005) also reported that expenditures on local and overseas training have a strong and positive effect on profitability represented by return on capital of commercial banks. The sample was however small as only four banks were used to represent the Nigerian banking industry.

A number of reasons could be liable for limitations that cause previous studies to be inconsistent in discussing issues that relate to human capital and performance relationships in Nigeria's banking system. Such limitations may likely be due to the difficult nature of the industry, as a contrast to sectors likes manufacturing, and agriculture. Moreover, the frequency of reforms implemented on banking sector characteristically makes it a highly regulated sector. This high level of regulation limits the possibilities of applying models from

data and methodologies based on other industries. In addition, difficulties in understanding the services produced by banks compounded by difficulties on how to measure these services make the estimation and measurement of output, technical change, or productivity change particularly challenging in the banking industry. Consequently, relegation of significant productivity improvements resulting from changes in some rational factors such as human capital has consequences for policy formulation due to problem of inadequate data.

Previous studies on Nigeria often neglect the influence of unique human capital elements including managerial skills, expenditure on medical and healthcare, and employees' welfare (Olaere and Adesoji, 2013) common to Nigerian commercial banks. The exclusion of these human capital elements may be due to measurement difficulties. Certainly, managerial skills, health and employees' welfare are major determinant issues in economic policy. Inadequate information relating to the technical relevance of these critical human development elements may have misguided previous policies and corporate decisions especially pertaining to areas of operational risks.

As is the trend in literature, this study assumes that the magnitude, value, and relevance of human capabilities become fruitful by the investment channeled to achieve it. As a result, this study argues that these elements could be critical to the Central Bank's competency framework for the Nigerian banking industry designed to help overcome human and operational risks. Hence, the research is set to review issues regarding these policy variables with a view to derive hypotheses relating to the influence of these elements on the efficiency and performance of commercial banks.

This study is inspired to review the impact of human capital development on the profitability and performance of commercial banks in Nigeria to provide empirical evidence

in an area where it is unapologetically scarce. Hence, the study examined facts on all commercial banks in Nigeria to update the literature.

### *2.3 Problems Relating to Human Capital Deficiency in Nigerian Commercial Banks*

For the past two or more decades, the Central Bank of Nigeria (CBN) has implemented a series of reforms in the banking industry which was then characterized by low performance, general stress, and high levels of uncertainty. The goal of the reforms is to achieve improved performance, stability and operational flexibility to withstand the challenges of globalization and technological advancements. Reform adjustments in the financial sector were also designed to contain effects emerging from shocks in the global financial economy such as the 2007 credit crisis which originated from the United States.

The crisis has become a legendary phenomenon which exposed weaknesses and inefficiencies of various banking systems globally including poor manpower quality and low human capital reasons partly held for Nigerian banks poor performance. Lack of professionalism is among the major reasons (Obadan, 2005) blamed for poor performance of the industry. The literature suggests that such deficiency resulted from gross negligence of human capital policies such as training (Gimba & Anyanwu, 2022; Muktar, 2005), education, health status and labour welfare (Adesoji and Olaere, 2013). This was grossly amplified in the CBN Financial Stability Report (2013:59) and Ezekwesili & Ezejiofor (2022) that recurring instability in the Nigerian banking sub-sector exposed the dearth of skills and executive capacity in the banking industry.

The CBN specifically identified established gaps regarding poor understanding of basic banking operations; poor understanding of banking regulations; knowledge gaps in financial markets and treasury management; and unethical

conduct and unprofessional practices. Without doubt such gross incompetence (among other things) created an avenue for insider lending & bad loans (Brownbridge,1998), bad loans & advances, fraudulent practices, bad management, lack of adequate supervision, undue reliance on FOREX, bad credit policy and undue interference from board members which are among important factors causing bank distress (Okpara,2009). Specifically, Ogunleye, (2010) referred to them as the “institutional factors” which he argued are the most profound factors that led to the distressed condition of most banks in the Nigerian banking industry. The factors he posited are majorly a result of mismanagement and this mismanagement resulted inter alia, the inexperienced and incompetent personnel recruited to hold key positions. As a result, they lacked the ability to respond to the rapidly changing economic conditions and regulatory framework (pg. 53-61).

Ogboru, (2007) supports the foregoing argument while adding that, the quality of manpower in the Nigerian banking industry is low and this problem is compounded by human resource mis-allocation with respect to poor staffing ratio, occupational mix, and high labour mobility. He stated that, unless monetary authorities enunciate appropriate policy to guide manpower recruitment, staffing, training and development and recommend appropriate staff ratio, the quality of management that will face emerging trends in the banking industry would be elusive. Armenta (2007) also provides support by the argument that financial sector human capital, in the form of skilled and competent professional bankers contributes to the stability of banks. Unfortunately, developing countries, both pre- and post-liberalization, often suffer from an inadequate supply of capable professionals. Armenta (2007) further opined the imperative for banks to have managers who are skilled at objectively assessing credit risk based on market forces by conducting penetrating

interviews with prospective clients, performing detailed financial analyses, and judging the validity of available information. These skills are a vital part of the institutional strengthening process and yet are often deficient in pre-liberalized or newly liberalizing states. According to Hughey & Mussnug, (1997) as cited by Petridou & Glaveli, (2003) Employees’ development and training involve a learning experience that facilitates change and organizational effectiveness depending strongly on the extent to which both are successfully planned, implemented and evaluated.

Therefore, to bridge the identified breaches in competence prospective entrants and current banking employees in the Nigerian banking industry need to acquire skills and knowledge necessary to enhance efficiency, and competency that supersedes and varies considerably from what is previously or currently obtainable i.e. to enhance productivity there was need to increase the human capital of banking institutions. Chandran, (2004) supports this theory and stressed the need to focus on the development of world-class capabilities among the workforce to raise productivity further and develop entrepreneurial ability to link, integrate and add value to core capabilities. Liu et al (2010) on another hand, highlighted argument found in resource-based view (RBV) literature that employees collectively can be a unique source of competitive advantage that cannot easily be imitated by competitors. Bharadwaj, et al (1993) sustained this argument and further explained that the attainment of competitive advantage by a firm is expected to lead to superior performance measured in terms of market share and profitability. Thus, the required innovation to provide unique competitive advantage to enhance superior performance, larger market share and improved profitability in the industry can be achieved using capable human resources; these required capabilities can in turn only be acquired through human resource development.

Evidently banking institutions in Nigeria are aware of the need to increase their human capital to improve the skill requirements of their staff because of the internal training centers found in most banks. It is also evidenced by the established presence of the Chartered Institute of Bankers of Nigeria (CIBN), the Financial Institutions Training Centre (FITC), and the West African Institute for Economic and Financial Management which CBN (2010:41) shows are the major institutions responsible for banking education, short courses for bankers, training regulators, and Capacity building for the banking industry.

Despite the support of these institutions to banks however, there exists substantial evidence suggesting that banking institutions in the country suffer from dearth of human resource capacity and expertise, necessary for managing the rapid expansion of the industry resulting from recent times. In 2012, the then Governor of the Central bank of Nigeria identified “quality of manpower” as a key challenge to the reforms in the banking industry and further stressed that, real strategic change can only take place with competent and committed workforce that is constantly exposed to training and development (Gimba & Anyanwu, 2022; Sanusi, 2012). He also argued that, the competitive financial sector environment requires a highly skilled workforce that can effectively contribute to value creation within financial institutions.

Hitherto, employee recruitment was merely to comply with regulatory requirement, while training was viewed as a non-revenue function that was costly and unnecessary. Both the code of corporate governance and the Central bank Governor amplify the need for the reorganization of the role of human resource development, especially in providing experts with the appropriate capabilities. Previous evidence also shows that, the CBN in April 2006 enforced a code of corporate governance shortly after the consolidation exercise of 2005 (Enobakhare, 2010). This new enforcement

identified several shortcomings including those of banking corporations and the expectation was for the industry to take measures to correct them. The code also focused on best practices towards the achievement of corporate strategy. Impliedly, the expertise and capabilities required for achieving the new corporate strategy is an integral function of the human resource development section of the respective banks operating in the banking system, which seems to be lacking currently.

Therefore, investing in improving human resource capabilities should become some of the major focuses of the Nigerian banking industry especially in addressing competition and performance issues. In this vain, several writers (Watkins, 1989; Mc Lagan & Suhadolink, 1989; Nadler & Nadler, 1990; Chalofsky, 1992; Stewart & Mc Goldrick, 1996; Byrne, 1999) in Wilson, (2005) offered various definitions and arguments indicating the existence of a link between human resource development with employee development and performance. The general perception is that human resource development (HRD) is a process intended to provide a coherent set of policies for the social and economic development of a country (Truss et al, 2012). More appropriately, HRD is “a set of systematic and planned activities designed by an organization to provide its members with the opportunities to learn necessary skills to meet current and future job demands” (Werner & DeSimione, (2012). Abdullah, (2009a) forwards the general claim that performance forms one of the four key functions of HRD, as it is an important extension of HRD theory. Hence, individual development, organizational development, career development and performance development are the four main functions of HRD and can be described as interrelated functions within HRD.

Despite these informed evidences on the relevance of HRD in achieving competence, professionalism and improved organizational performance, Nigerian banks still treat human

resource development with laxity. In fact, previous research has shown that Nigerian banks have not adequately exploited HRD despite the theorized benefits accruable from doing so, and they trace such inaction to factors such as perceiving human resource development department as cost center, inadequacy and inefficiency of training personnel (Muktar, 2005), poor and inadequate investment on health and education (Nwude, 2012), or because of the lack of instructors with practical experience (Ardichvili & Gasparishvili, 2001: 47) to improve on banks human resources. Written works on Nigeria indicate that human capital deficiencies account both the poor performance and/ or outright distress of banks in Nigeria (Sanusi, 2012; Ogboru, 2007; Ogunleye, 2010; Obadan, 2005).

#### *2.4 Technological Imperatives for Human Capital Development in Nigerian Banking Industry*

Researchers and practitioners recognize technology as an important firm-level resource. In many studies, technology refers to the different equipment, tools and techniques used by organizations for the production of services and products (Banalzwa et al., 2017). Technology enhances the productivity, efficiency and performance of the organizations that utilize them. It also provides numerous advantages by enhancing the speed and precision of executing tasks thereby helping firms to handle large volumes of work within shorter time spans.

In the banking sub-sector, technology comprises the computer hardware, software and other information and communication equipment used for processing financial products and services (Mishra and Akman, 2010; Lin, 2007). It also consists of those computer-based equipment and programs used for enhancing employee skills, knowledge and capabilities. Hence, the volume and quality of technology-based equipment that goes into the

production process describes the firm's level of technology (Widarni & Bawono, 2021; Acemoglu, 1998).

Previous studies have investigated the role of technology in creating value through performance enhancement. Financial firms perceive new technology as a source of innovation because it will enable them to render unique and sophisticated services and products to their customers. Literature evidence shows that management of banks consistently allocates huge financial resources to acquire technology believing that it contributes to productivity, efficiency and profitability. For example, Mittal and Gupta (2013) observed that in India, managers suppose that new technology supported banks to extend their market frontiers by offering new products and efficient services. They contend that the use of information technology has increased penetration, productivity and efficiency of the banking sector. That information technology has made banking operations more cost effective.

Likewise, Dangolani (2011) examined the effect of technology on banks in Iran and reports that technology helped Iranian banks in service time saving, cost reduction, and network facilitation. Dangolani (2011) opines that technology has made it possible for banks to render new services, and products over efficient channels. He observed that technology has led to the introduction of online banking, mobile banking, automated teller machines, and internet banking services. Both Mittal and Gupta (2013) and Dangolani (2011) note that technology has stimulated stiffer competition among banks worldwide and that the adoption of technology in Indian and Iranian banks was prompted by the need to survive intense competition from foreign banks.

In relation to this, Beccalli (2007) contends that technology is important in changing both the way banks operate and the way they plan to sustain market share. Beccalli (2007) also believes that technology enables banks to offer

new products, through a variety of service platforms. That technology allows banks to modify their operations and minimize costs. On another hand, many studies also suggest that technology contributes to competitive advantage in firms (Johan & Hapsari, 2020; Clemons et al., 1991; Wang et al., 2007). To this end, Chi and Sun (2015) maintain that due to complex nature of technology, competitors may find it hard to replicate as such it is an important source of competitive advantage as advanced by the RBV theory.

Researchers however, argue that technology can only create value, improve firm performance, and become a source of competitive advantage when applied together with other firm resources (Wade et al., 2004; Chi and Sun, 2015). In view of this argument, Mazidi et al. (2014) show in their study that a combination of information technology infrastructure and human capital gives firms greater capacity for competition. Bondarouk et al. (2015) echoes the argument stating that technology supports execution of human resource functions in banks. In fact, they reveal that technology has also enabled banks to implement an Electronic Human Resource Management (e-HRM) system. Therefore, technology should enhance the relationship between human capital and the performance and profitability of Nigerian banks.

### 3. Conclusion and Recommendations

The aim of this paper is to ascertain from existing body of research the effect of human capital development on growth, and profitability of commercial banks. Our study concludes that the development of the Nigerian banking sub-sector, its capacity to remain critical to the Nigeria's economic growth and the capacity to become internationally competitive are unarguably linked to investment in the development of its human capital. Existing research on human capital development discloses practically strong correlation between

human capital development and bank's financial and non-financial performance. The conclusions of this study therefore align with the trend in literature. The paper recommends the infusion of core Nigerian banks' staff into intensive software application sessions as well as information and communication technology training programs to boost their capacity to effectively handle the technology-intensive platforms currently operated by Nigerian commercial banks.

The human capital indices reviewed in this paper is by no means exhaustive hence; other researchers may extend the scope of the investigation to cover additional variables concerning human capital development in banks. Furthermore, the literature shows that, commercial banks operating in other economies may have a different framework for human capital development where unique characteristics of human capital development could be identified. For example, banks in Singapore develop human resource under The Financial Industry Competency Standards (FICS) framework. While, human capital development for the financial sector ensues under the Qualification Framework (QF) in Hong Kong. Dubai on the other hand uses a Two-layered approach to develop talents and skills for the banking sector. Hence, further research would be required to ascertain the relationship between HCD and performance of commercial banks based on different human resource development structures and geographical origins. Lastly, this study concentrated on firms in the banking industry. Further research could extend similar study to firms in other sectors of the economy.

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