THE STRATEGIC IMPORTANCE OF HUMAN RESOURCES MANAGEMENT AND THE ROLES OF HUMAN CAPITAL INVESTMENT AND EDUCATION

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Abstract: The entry focuses on the issue of strategic importance of human resource (HR) management. The questionnaire survey was aimed at companies from the Region of South Bohemia. The approach to personnel agenda was analysed, as well as the connections to the branches in which the tested businesses were active, the size of the company, the education level of their HR officers, and their company level investments in human capital. A high level of heterogeneity in the data was found and no statistical differences were found in tested hypotheses. However, it was discovered that if the HR department employees have tertiary education, it is a sign of a higher standard and competence level of the department. The higher level of competency and HR planning independence was found in the service sector. This supports the claim that a vast variety of skills is needed in order to provide agenda of life-long learning and professional growth.

Keywords: Czech Republic, Region of South Bohemia, Human resources management, Personnel department, Human resources officer, Human capital.

JEL Classification: O15, J24, I21.

Introduction

This paper deals with the role of human resources (HR) manager’s level of education, company investment in learning and skills and controls for company size and economic activity. The analysis is aimed at HR departments and particularly their size and strategic management’s importance. In other words, this paper focuses on the relationship between strategic position of HR department and the HR manager’s level of education, quality of Human resources management (HRM) activities which are measured by regular human capital investment.

Human resources management (HRM) in the Region of South Bohemia is influenced by the Czech Republic being a transitional economy. Previously, Tung and Havlovic (1996) stated that the Czech Republic is historically closely linked to Austria and Germany, and has a higher level of industrialization. This suggests that many of Czech HRM policies and practices are similar to the ones created in the industrialized West. The process of privatization evokes changes in how firms in transitional economies function. It also influences the organizational structure of these firms (Cooke et al., 2011; Horwitz, 2011). Outdated and inflexible organizational structures have to evolve and be transferred into structures that are more flexible and newer.

The competitive pressures of multinational enterprises (MNEs) needed to be taken in account as well (Zupan and Kaše, 2005; Poór et al., 2014). Several empirical studies from advanced Western economies (at the firms/individual levels) confirm (Dany et
al., 2008; Grund and Martin, 2012) the necessity of HRM functions and advanced training to gain competitive advantages (Ognjenovic, 2015).

When it comes to comparing the current state in Bulgaria, Czech Republic, Hungary, Poland, Romania, and Slovakia, there are distinct and divergent cultural differences between the countries (Buzady, 2016; Zupan et al., 2017). Because of these differences, staffing strategies, talent management, and MNEs’ policies have to be introduced and fine-tuned to the specific needs of the countries. Strielkowski, Shishkin and Galanov (2016) were analyzing new management approaches, such as self-management, decision-making delegation, constituting of keystones of “modern management”.

**Fig. 1: Gross value added at basic prices by NUTS 3 regions in 2014**

The business structure in the region of South Bohemia (Fig. 1) is characterized by higher share of gross added value in primary sector and construction in comparison to the national economy average. The share of services (NACE codes G to N) is about 43 % which is comparable share to the structure of other regions except service oriented region of Capital city of Prague. About 32.4 % of workers are employed in the industry 11.2 % in trade activities, and 8.7 % in construction in the region of South Bohemia (Krajská správa Českého statistického úřadu v Českých Budějovicich, 2016).

Looking at the research about the Region of South Bohemia, Dalíková and Doležalová (2012) analyze how process management is practiced in small and medium-sized enterprises (SMEs) in the Region of South Bohemia in connection with several business sectors. The analysis conducted by Straková, Vokoun, Váchal, Stellner and Vaničková (2016) proved that companies are highly interested in further
training their employees but not by signing them to programs of life-long learning but by providing training courses that focus on specific specialized skills, concrete new technologies, soft skills, and certificates.

1 Statement of a problem

The analysis is based on the importance of human capital investment and particularly the role of education. The returns from education and various types of training to the individual, firm and the economy have been widely studied (Blundell et al., 1999; Kwon and Rupp, 2013; Bhattacharyya et al. 2014). The evidence has shown that investment in human capital and selected training activities are an important factor in individual, company, region, and national economy growth. This paper tries to prove that the strategic importance of HR department depends on the ability to provide quality human capital investment which is based on the education level of HR workers.

The research was conducted in South Bohemian businesses via an electronic questionnaire in November and December 2015. Tested hypotheses firstly focus on the services sector, in which the business comes in close contact with its customers and where the knowledge and skills of employees tend to be higher than in industrial businesses. The first two hypotheses are rather descriptive and provide a control function. Last two hypotheses aim to provide the links between human capital investment, and strategic importance of HR department.

The first hypothesis states: “There are differences in HRM between the service sector and companies from other branches.” The analysis conducted here focuses on the role of the human resources officers that requires higher standards and skills of these officers within bigger businesses. The second hypothesis thus states: “The group of middle-sized and bigger companies (more than 50 employees) is specific and has different criteria for their human resources officers and their skills than micro-enterprises (0-9 employees) and small enterprises (10-49 employees).”

The next hypothesis focuses on the effects of long-term and regular investments in human capital, which should create advantages over rival companies. The third tested hypothesis therefore states: “Respondents, who pay attention to lifelong learning activities within businesses, invest in long-term human capital and require significantly different personnel agenda and employees.”

The last hypothesis concerns itself with the signaling theory and with realizing that a qualified HR manager is a key asset within a company. It also detects the differences between companies that see tertiary education of human resources managers as a specific sign of higher qualification. The fourth hypothesis states: “Companies demanding tertiary education of their human resources managers have a different approach to personnel agenda.”

2 Methods

This paper employs and interdisciplinary approach. This method of analyzing HRM activities requires knowledge from a variety of social sciences. The individual level is connected to the focus on knowledge of the human brain, the findings about limited rationality, and mistakes in everyday decision-making (Kahneman, 2011), discovering motivation factors, the effective use of innovation potential and talents of engineers,
designers, mechanics and computer programmers (Dries, 2013; Festing et al., 2013). The interdisciplinary approach also accentuates the role of history, personal and professional past employees have and to which generation the employees belong (Solnet and Hood 2008).

In HR research about human capital investment the models such as hourly wage model by Mincer (1974), Cobb-Douglass production function or data envelopment analysis (Mehra et al., 2014) are used to determine the effects of investment to the individual worker, company or national economy efficiency. We are not interested in the efficiency of individuals or the company, but strategic position of HR department within the organization. We had to employ a standard non-parametrical approach to the questionnaire and hypotheses testing because the variables of interest were not normally distributed. Parametric approach was possible in terms of categorical logit estimation, but we were not able to provide unbiased model. It is because we faced omitted variable problem and severe heteroscedasticity. There are individual effects in companies and other factors influencing strategic position of HR department.

In order to test the hypotheses, a Wilcoxon rank-sum z-test (Wilcoxon, 1945) was used. It tests unpaired data on the equality of two independent variables $X_1$ (for example group size) and $X_2$ (answer to a selected question Q#). The probability of type I errors was chosen at the level $\alpha = 5\%$ (p-value $\leq 0.05$). For the purposes of interpreting the results, differences between the mean values are used as an approximate representation of statistical difference between groups during otherwise same conditions (ceteris paribus). No interactions of more variables are considered in this approach.

The questionnaire research in selected companies was conducted in November and December 2015; only South Bohemian businesses were selected. A list was assembled of altogether 300 active respondents (companies and organizations) from the private and public sectors. An electronic questionnaire with a return rate of 24.33 per cent was used. There were also few respondents that do not have an HR department (outsourcing). It is possible to consider a much higher return rate without such cases. But even such gross return rate (69 companies in total) is a representative sample for testing basic hypotheses of two business groups. 32 companies in total (46.38 \%) are businesses providing services (including financial services, wholesale, and shipping agencies). Other companies are from the manufacturing and construction industries. We are aware of the possible systematic and even misleading distortion in the design of the questionnaire. Academic terminology is used in some questions, which can be incomprehensible; some departments might not know all of the used terms (f.e. “outplacing”). Nobody did however report any comprehension problems or complained about the questions’ instructions in the commentary sections.

3 Problem solving

The number of registered employees of HR departments is converted to full-time employee units; it does not matter what branch, meaning if the respondent is providing services or is from the production branch. The size of the enterprise is also irrelevant, meaning whether the respondent is a small enterprise (maximum of 50 employees); the education level of employees is also irrelevant, meaning it does not matter if the respondent’s human resources department offers lifelong learning programmes; the
education requirements for HR managers are also irrelevant (Tab. 1). If we observe a high deviation, the number will develop and will be dependent on other factors rather than the observed factors.

**Tab. 1: Number of registered employees of human resources departments**

<table>
<thead>
<tr>
<th>Number of observations</th>
<th>Average</th>
<th>Standard deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>65</td>
<td>3.63</td>
<td>5.37</td>
<td>0.2</td>
<td>26</td>
</tr>
</tbody>
</table>

H1 – Economic sector (services) No differences \( z = 0.435; \) p-value 0.66

H2 – Firm’s size (large firms) No differences \( z = -0.74; \) p-value 0.46

H3 – Human capital investments No differences \( z = -1.156; \) p-value 0.25

H4 – HR director’s education No differences \( z = -1.66; \) p-value 0.09

*Source: Authors, 2016*

We observe results with a high variability of values; summarizing values suggest a prevalence of the share of employees with secondary education and a relatively high share of employees with tertiary education (Tab. 2). Because of the high standard deviations however, it is necessary to test potential hypotheses about the higher share of employees with tertiary education in more detail. This share is branch independent; the size of the enterprise is also irrelevant, meaning it does not matter if the respondent is a small enterprise with less than 50 employees, or a middle-sized or big enterprise with more than 50 employees.

**Tab. 2: The share of employees according to the level of their education**

<table>
<thead>
<tr>
<th>Share of HR employees</th>
<th>Number of observations</th>
<th>Average</th>
<th>Standard deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tertiary edu.</td>
<td>69</td>
<td>40.41</td>
<td>40.39</td>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>

H1 – Economic sector No differences \( z = -1.291; \) p-value 0.20

H2 – Firm’s size No differences \( z = 1.927; \) p-value 0.054

H3 – HC investments +18.22 % points \( z = -2.109; \) p-value 0.032

H4 – HR director’s education +29.83 % points \( z = -3.013; \) p-value 0.00

<table>
<thead>
<tr>
<th>Secondary edu.</th>
<th>69</th>
<th>53.34</th>
<th>39.33</th>
<th>0</th>
<th>100</th>
</tr>
</thead>
</table>

H1 – Economic sector No differences \( z = 1.113; \) p-value 0.27

H2 – Firm’s size No differences \( z = -0.793; \) p-value 0.43

H3 – HC investments No differences \( z = 1.397; \) p-value 0.16

H4 – HR director’s education +22.35 % points \( z = 2.210; \) p-value 0.03

<table>
<thead>
<tr>
<th>Lower education</th>
<th>69</th>
<th>6.25</th>
<th>18.05</th>
<th>0</th>
<th>94</th>
</tr>
</thead>
</table>

H1 – Economic sector No differences \( z = 0.265; \) p-value 0.79

H2 – Firm’s size No differences \( z = -0.864; \) p-value 0.39

H3 – HC investments No differences \( z = 0.454; \) p-value 0.65

H4 – HR director’s education No differences \( z = 0.368; \) p-value 0.72

*Source: Authors, 2016*

As expected, there is a certain dependency on education demands, meaning if the respondent requires tertiary education. There is also a dependency in form of 29.83 percent higher share of HR employees when tertiary education of the manager is demanded than in companies where tertiary education of managers is not required.
This connects to 22.35 per cent higher share of HR employees with secondary education in companies where tertiary education of the manager is required than in companies where it is not. There is no difference of the share of the least educated HR employees in the departments of all companies. The dependency result in form of 18.22 per cent higher share of HR employees with tertiary education in the department if the company provides lifelong learning and professional development opportunities as a part of its personnel agenda is interesting. An influence of human capital investments in other education groups was not observed.

**Tab. 3: The strategic management’s perception of the importance of the human resources**

<table>
<thead>
<tr>
<th>Number of observations</th>
<th>Average</th>
<th>Standard deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>69</td>
<td>2.14</td>
<td>1.00</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>H1 – Economic sector</td>
<td>No differences (z = 0.965; p-value= 0.33)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H2 – Firm’s size</td>
<td>No differences (z = 0.66; p-value= 0.51)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H3 – HC investments</td>
<td>No differences (z = 1.193; p-value= 0.23)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H4 – HR director’s education</td>
<td>+0.43 % points (z = 2.173; p-value= 0.03)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors, 2016

Note: Likert scale: 1- Very useful, 2 - Useful, 3 – Necessary, 4 – Almost useless, 5 - Useless.

This value is branch independent; the focus of the company is not relevant (Tab. 3). The value is also independent on the size of the enterprise, meaning if the respondent is a small company (maximum of 50 employees), a middle-sized or a big company with more than 50 employees (z = 0.66; p-value= 0.51; N=69). The value is also independent on the form of employee education, meaning if the respondent provides lifelong learning within the human resources department (z = 1.193; p-value= 0.23; N=69). The value is however dependent on the demands for education, meaning if the respondent demands tertiary education of its human resources employees (z = 2.173; p-value= 0.03; N=69). If the company does require tertiary education, its HR department is seen more positively, by 0.43 per cent, in comparison with companies that do not require tertiary education.

**Tab. 4: The formation of human resources plan (medium-term department plan)**

<table>
<thead>
<tr>
<th>Firms with no HR autonomy, competency, i.e. someone else is running HR planning (A, B, C, D) vs. There is certain level of autonomy and competency and HR planning (E, F, G).</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 – Economic sector (services)</td>
</tr>
<tr>
<td>H2 – Firm’s size (large firms)</td>
</tr>
<tr>
<td>H3 – Human capital investments</td>
</tr>
<tr>
<td>H4 – HR director’s education</td>
</tr>
</tbody>
</table>

Source: Authors, 2016

Note: A: Higher management forms the plan (53.6 %), B: We do not form a plan (2.9 %), C: The plan is formed by someone else (1.4 %), D: The plan is formed by higher management according to the long-term business plan (1.4 %), E: The plan is formed by higher management with comments by the HR department (24.6 %), F: The head of the HR department according to the long-term business plan of the enterprise
forms the plan (13.0 %). G: Higher management of the human resources department forms the plan (2.9 %).

In the corporate sphere, HR officers are often perceived as administrators, statisticians in a function office position, instead of being viewed as a part of higher management, a communicator between management and employees that provides methodological leadership and consulting services for the company’s employees. In the HR department, medium-term department plan is perceived as something that is decided by strategic management (higher enterprise management in more than half of the cases). Only 15.9 % of respondents have tactical autonomy while forming plans. Approximately a fourth of the departments have the possibility of commenting on plans that are introduced by higher management.

The level of autonomy (Tab. 4) is dependent on the branch type, meaning if the respondent provides services or is active in the production branch (z = 2.433; p-value= 0.02; N=69). Lower competence share is in the services providing branch, by 29.05 per cent; the competence share in the production branch is 54.05 %, 25 % in the services providing branch (meaning the competence to create a plan).

This value is independent on the size of the company, meaning if the respondent is a small company having maximum of 50 employees, or a middle-sized or big company employing 50 and more employees (z = 1.945; p-value= 0.052; N=69).

The value is independent on the education requirements, meaning if the respondent requires tertiary education during admissions to the human resources department (z =- 0.560; p-value= 0.58; N=69).

The value is dependent on the form of the employees’ education, meaning if the respondents secure lifelong learning opportunities for their human resources departments (z = -2.087; p-value= 0.04; N=69). A higher share of competences is in companies that offer lifelong learning and professional development opportunities to their employees. It is by 25.17 % (plan creating competence), 54.17 per cent is the competence share in enterprises offering lifelong learning opportunities, 30 % in companies that do not.

4 Discussion

This entry had tested hypotheses linked with the current debate in HRM research, discovering a high demand for further employee education, primarily focused on specialized skills, in detail new technologies, soft skills and certifications. A relatively high level of heterogeneity was found in the dataset. A lot of tested hypotheses were found statistically not significant.

The possibility of competent planning is typical in companies in the production branch and depends on a certain corporate philosophy providing long-term lifelong learning programs. These findings are in connection with conclusions of Stacho, Urbancová and Stachová (2013).

The self-evaluation of departments is very heterogeneous. We observe on average a variable score from 1 (very useful) to 3 (necessary department); there are however also evaluations from respondents where they see their own role within the company as superfluous. This value is again dependent on the education requirements of the
companies, if the enterprise demands tertiary education of their human resources officers it is 0.43 per cent points more positive than in enterprise, which do not require tertiary education. The human capital investments are linked with a higher share of HR workers with tertiary education. The role of HR director’s education is linked to the higher share of tertiary educated HR workers.

**Conclusion**

The strategic perception of HR department is dependent on the level of HR director’s education. The higher director’s education is however not sufficient to provide certain level of HR planning autonomy in the company. The planning autonomy is more dependent on the presence and probably volume of human capital investment and also the type of economic activity. In other words, the company that provides lifelong learning and professional development opportunities as a part of its personnel agenda in service sector is more likely to have HR department with the competency and accountability to prepare medium-term HR department plan.

In general, tertiary education indicates a higher standard and competences of the human resources department. The willingness of management to entrust the personnel agenda to the HR departments with such trained employees depends on the university education and lifelong learning. The number of registered employees of human resources departments is independent of the branch. The size of the enterprise and the education level of employees is also irrelevant, meaning it does not matter if the respondent’s human resources department offers lifelong learning programmes; the education requirements for HR managers are also irrelevant.

The share of employees according to the level of their education is branch independent; the size of the enterprise is also irrelevant. As expected, there is a certain dependency on education demands. The share is 18.22 per cent higher in the department if the company provides lifelong learning and professional development opportunities. An influence of human capital investments in other education groups was not observed.

The strategic management’s perception of the importance of the human resources is branch independent; the value is also independent on the size of the enterprise, the form of employee education. The perception is however dependent on the demands for education, meaning if the company does require tertiary education, its HR department is seen more positively, by 0.43 per cent, in comparison with companies that do not require tertiary education.

Approximately a fourth of the departments have the possibility of commenting on medium-term department plans that are introduced by higher management. The level of autonomy of HR department is dependent on the branch type, size of the company, the education requirements, and on the form of the employees’ education.

**Acknowledgement**

This contribution is an output of the scientific work of the Institute of Technology and Business in České Budejovice, Czech Republic.
References


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