Importance of identifying and analyzing business development needs for economic survival and sustainable development through human capital

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Accepted 9 October 2011

A business firm’s ability to effectively take advantage of new business opportunities depends to a large extent on the quality of its human capital. For a firm to improve or increase its stock of human capital, it needs to continue to develop its human resources. This paper demonstrates theoretically that there is a strong connection between firms’ ability to identify and analyze business development needs, using their stock of human capital, and the achievement of economic survival and sustainable development of a nation. The paper makes a case for sufficient emphasis on the funding of the drivers of human capital development – education and health - if developing nations, like Nigeria, should transit into world class economies in the near future.

Keywords: Human capital; Human resources; Business development; Sustainable development.

INTRODUCTION

For firms to survive, grow and remain competitive in a sustainable way, a key agenda they constantly need to pursue is that of identifying new business opportunities or expansion of the frontiers, scale and scope of the existing ones. Identification of new business opportunities typically involves creation of access to new markets; establishing new supplier sources; innovating and delivery of new products and services to the market; arranging new methods of exchange with third parties; cultivating new sources of financing; and, establishing new operating partnerships. To effectively actualize this agenda, a large firm may have to develop, nurture and manage strategic cooperative relationships, alliances or linkages with third party firms in the same or related business areas, with a view to mutually leveraging their organizational resources, including technologies, expertise, intellectual property and other assets, towards expanding their individual and collective capacities for researching, identifying, analyzing and realizing new business and market opportunities (Hubert, 2011). Irrespective of its size and the business sector or industry it operates in, for a firm to be successful in meeting the expectations of its main stakeholders, it must necessarily seek to realize this core agenda.

All attempts aimed at identifying and then actualizing new opportunities by a firm describe what business development is. The process of establishing appropriate business objectives and/or assessing the firm’s current position in its market becomes the starting point for identifying the business development needs. Arising from this identification of the relevant business needs are new ideas, directions or paradigms regarding which ventures and markets the firm should pursue or become engaged in, within the context of its capability and the nature of the market. The activities, programs and projects that follow then become those that help the firm survive and compete favorably in its market. However, for a firm to effectively identify and analyze its business development
needs, it requires a good stock of competent, knowledgeable and skilled persons in its workforce. This stock of persons represents an organizational asset class that is regarded as the human capital.

In a market-oriented economy, a firm’s competitiveness depends to a large extent on its stock of human, financial and physical capital, as well as the uniqueness of its management practices (Xiao, 2001). The difference between the various firms’ effectiveness, including business development needs identification capabilities, therefore could arguably be explained by the differentials in the quality of this human capital. Like its other stock of capital and management practices, where a firm’s human elements are properly honed, through continuous learning, training and development, the human capital appreciates in a way that facilitates delivery of superior market-place performance.

It is the set of actions taken by the human elements that operate in the mass of firms existing in an economy that usually contributes in a significant way to the economic survival and sustainable development of a nation. Financial capital, physical and natural resources are merely passive factors of production, whereas human beings are the active agents that accumulate these other capitals, exploit the natural resources, build social, economic and political organizations, and generally carry forward national development (Psacharopoulos and Woodhall, 1997). Human capital, which is built up by human resources or the workforce, therefore constitutes the ultimate basis of the wealth of nations. Harbinson (1973) has suggested that human capital is the most valuable asset of a nation, and any society that is incapable of developing its human assets will be incapable of developing anything else (as cited in Igwe and Igwe, 2011, p. 178). This fact firmly places human capital as the key resource, both at the organizational and societal levels.

This study attempts to address the connection between identification and analysis of the business development needs of firms using their stock of human capital and the achievement of economic survival and sustainable development of the nation. It specifically examines the extent to which government policy supports the development of human capital in Nigeria. To resolve this problem, an analysis of the annual budgetary expenditure on the key variables that drive human capital development, education and health, is carried out. Set data on annual budgets of Nigeria and a number of selected countries across Africa, Asia and South America are utilized for comparison. This selected description approach therefore focuses on education and health because these areas prove to be most critical or have the greatest impact on the development of human capital.

Theoretical framework

A discussion of the importance of identifying and analyzing business development needs for economic survival and sustainable development through human capital will commence with an understanding of the theoretical underpinnings of the relevant concepts.

The business development theory

Generally, business development describes the identification and exploitation of new business opportunities by analyzing market trends and activities with a view to bringing in new customers, while retaining or expanding transactional relationships with the existing ones. It is therefore a process that involves prospection and development of a new products/services or technology. It may also mean investing or even divesting corporate assets. Ultimately, it seeks to bring about some discontinuity in the normal operations or scheme of things for a firm, under which it will focus on doing or developing new things it had hitherto not been involved in (The Unlimited, 2007).

In view of this description, Schumpeter’s (1936) theory of entrepreneurship arguably addresses, and has a fit with, the business development concept more than any other. In seeking new opportunities, firms become entrepreneurial and begin to innovate. This behavior is typically expressed in the introduction of new products/services, new methods of production, creation of a new market, new sources of supply of inputs/materials or a new organization in the industry. Such firms accordingly, seek opportunities for novel, value-generating activities which would expand the circular flow of income to the benefit of society and economy. In focusing on generating new combinations that discontinue the existing or contemporary production, the firm engages in Creative Destruction of the extant technology or way of doing business (cited in Duke, John and Kankpang, 2010). Under this theory, Schumpeter suggests that only firms that continue to innovate, on an ongoing basis, can hope to survive, thrive and dominate their market space. The theory therefore clearly recognizes the identification and pursuance of business development needs as key to economic survival and sustainability of firms and the society.

The human capital theory

In order to develop capabilities for identifying and analyzing business development needs, a firm requires skilled and talented human resources. The pool of skilled human resources is what tantamount to human capital for the firm. The value of the human capital is indicated in
the knowledge, competence and other personal attributes found in the ability of a firm’s workforce to perform tasks and deliver desirable results. This ability is usually gained through education, training and experience (Sullivan and Sheffrin, 2003). The underpinning thesis of the human capital theory is that the learning capacity of people is comparable to other natural resources involved in the production process. As such, where these resources are effectively developed, managed and exploited, the results are often profitable for both the firm and society as a whole. In order to grow the human capital in a way that would lead to higher productivity and macroeconomic growth, more schooling or learning is required (Livingstone, 1997). The amount and quality of schooling therefore strongly determine the value of the human capital.

The human capital theory suggests that education or training raises the productivity of workers by imparting useful knowledge and skills (Becker, 1993). Human capital arises out of any activity that seeks or is able to raise individual worker productivity (Marshall, 1998). According to this theory, the increase in the level of cognitive stock of economically productive people is a function of their individual innate abilities and the amount invested in their education. Human capital theory assumes that formal education is the key driver of the productive capacity of people (Schultz, 1975; Psacharopoulos and Woodhall, 1997). The provision of formal education is therefore a productive investment in human capital, which is superior, in terms of outcomes, to similar investment on physical capital.

Human capital theorists also argue that an educated population is invariably a productive one. Schultz (1975) reinforces this argument by suggesting that education enhances an individual’s ability to successfully deal with disequilibria in changing economic circumstances. Such ability normally includes that of: perceiving a given disequilibrium in the system (market); analyzing the relevant information; and, reallocating resources to act upon the emerging opportunity or solving the problem/threat. Besides, an educated person is better prepared to receive narrow, job-specific training that leads to high level technical competence.

From an economic perspective, the human capital theory proposes that the more educated workers become, the higher their future income and lifetime earnings (Becker, 1993). A decision to increase ones stock of knowledge through formal education and training is typically informed by a favorable cost-benefit analysis and demonstration that the net present value of investment in education is invariably positive for an individual. While generic training (formal education), usually paid for by the individual himself, offers benefits particularly for the worker, skill or subject-specific training is rewarding for both the individual who receives the training and the employer who sponsors such training. Investment in training predictably is unattractive in the short run for the worker and employer, but favorable in the long run, in terms of increased individual pay and higher firm productivity (which usually translates into superior financial performance). This model of presumed economic return on investment in education strengthens the importance of the human capital theory (Olaniday and Okemakinde, 2008).

However, the theory of human capital suffers some major criticisms. For example, it is argued that unlike physical or financial capital, human capital is not an independent asset for a firm. It is an abstract phenomenon or term that, at best, can only be considered in conjunction with or in the context of the firm’s human resources. Therefore, a truly quantitative value cannot be assigned to it, like most other organizational assets. Another criticism centers on the assumption that accumulation of education directly influences a person’s productivity, and thus his pay. The problem herein is that a person may acquire work competence through learning (such as on-the-job experience), and not necessarily direct education. Furthermore, the assumption that pay is a direct function of productivity, and by extension a person’s education, is somewhat flawed because other factors impact on the level of a person’s earnings, including the person’s aptitude, current state of the economy, the type of industry, the region and the person or his union’s bargaining skills (Block, 1990).

The sustainable development theory

In a generic sense, sustainable development is understood to be the ability to meet the needs of the present without compromising the ability of future generations to meet their own needs (WCED, 1987). The theory underpinning the sustainable development concept accordingly suggests that only societies that have developed the capacity to provide for their current requirements without jeopardizing the chances for continued future development, are those that will survive and thrive. The concept of sustainable development therefore has different ramifications - economic, social and environmental. It means resolving the conflict between various competing goals; simultaneous pursuit of economic prosperity; ensuring environmental stability and quality; and, maintaining social equity, among other
things (Hasna, 2007). The focus here however is on the economic dimension.

Economic development occurs on two fronts, society and the firm, or macro and micro levels. This development can be identified by certain indicators, and measured or assessed over time. Development at the society level describes the capacity of the national economy to generate and sustain an annual increase in its Gross National Income (GNI) at rates of 5% or more, especially up from an economic condition that had been static for a long time. Apart from the GNI, the per capita income also indicates the rate at which a nation expands its output relative to the growth rate of its population (Todaro and Smith, 2009). At the firm level, development is expressed in sustained increases in such parameters as sales turnover or revenue, profitability and market share (Igwe and Igwe, 2011). The path to this development for a firm includes a behavioral change that fuels an increase in its people’s creativity, skills, competence and capacity.

Identifying and exploiting new opportunities in an ongoing way helps firms survive, thrive and remain competitive in their markets. Where this is widespread, the entire economy enjoys sustainable development. Sustainable development theory proposes that information, integration and participation are the keys to achieving long-term survival and progress of society.

Identification and analysis of business development needs

Business development consists of all efforts directed at boosting the business of a firm (Hubert, 2011). Its key thrust is on identification, review and analysis of new or emerging market opportunities, and formulation of strategies for taking advantage of such opportunities. The business development objective is largely facilitated by cultivating or fostering new relationships with potential clients, partners and other elements in the market, and maintaining currency with existing ones. These relationships are targeted at exploiting perceived opportunities or creating totally new partnerships; new markets; new ways of accessing the market; and, the delivery of new and more valuable products or services. The overall goal or aim of business development is to help secure a wider customer base and the delivery of the firm’s products or services in the most profitable way.

Business development is a cross-cutting function that draws its resourcing from management, operations, marketing, sales, distribution and client relationship. In carrying out the business development function, the person can become involved in a wide range or variety of activities from product development, creation of marketing strategies, generation of sales leads to negotiating and closing business deals for the firm (Wet Feet, 2011).

Levels of business development

Business development is a generic function that is as relevant for a big conglomerate as it is for the small entrepreneurial firm. Irrespective of size, industry or market, firms are increasingly dependent on building their business around partnerships. Business development can however be identified at three distinct levels: Corporate, Commercial; and, Product (The Unlimited, 2011).

At the corporate level, business development often centers on strategic decision-making regarding whether to cultivate an organizational competence organically or to buy/acquire the needed competence. For example, an analysis of a new business opportunity may lead to a conclusion that the firm must move into a totally new market. In order to surmount existing impediments such as entry barriers, patent protection or legal constraints, it will have to decide on whether to merge with or acquire, enter into a strategic alliance or a joint venture with some other firm that possesses the asset or resources it needs. The ramifications of decisions taken at this level are systemic and affect the entire firm.

At the commercial level, business development decisions exist in three strata: Customer; Channel; and, Value Chain. At the customer stratum, decisions typically involve activities aimed at prospecting for sales, mainly the search for new customers in the same or new market segments through cold-calling or direct sales. The task here is cut-out for highly-driven, persuasive and persistent individuals. At the channel stratum, activities involve networking for new opportunities with partners such as distributors, representatives, agents, dealers, licensees, franchisees and the firm’s subsidiaries and international branches. At the value chain stratum, activities involve integration of the firm’s product with others in a way that offers, for instance, a totally new product that has greater market value. Such activities are designed to facilitate market enhancement and cost savings for the firm.

At the product level, business development differs from firm to firm. However, it basically involves developing a new product or technology. The level of development can either be incremental or disruptive. A development is incremental if it merely increases the functionality of an
existing product, platform or technology, while disruptive or discontinuous development is one in which a completely new product, platform or technology is developed from the scratch.

The importance of business development

Business development mainly helps firms identify and take advantage of new opportunities in the market. More specifically, it facilitates firms’ ability to: develop new markets; capture a wider share of customers within existing markets; assess the fit or match between the firm’s current assets with its need to maintain and/or expand the business; and, build and manage relationships with third parties or partners.

The road map for business development

The blueprint for business development activities consists of the following sequenced activities: identification of the problem or opportunity that needs change or intervention by the firm; review and evaluation of the firm’s mission, vision, objectives and strategy; monitoring and collection of data/information from the market and external environment; analysis and diagnosis of market place trends with the data collected and development of actionable opportunities; examination of the firm’s strategic advantage factors by objectively assessing its assets and capabilities; prioritization of the actionable opportunities; and, actualization of the prioritized opportunities by negotiating and putting into action the programs designed to realize them.

All of the above actions require strong analytical skills, sound judgment and good forecasting skills on the part of the business development person.

Human capital development

As change that is driven by technological innovation and economic reforms become constant in today’s business environment, firms increasingly get confronted with the need to adapt their workforce to cope with the speed of development. Under the circumstance, high levels of formal education, which facilitate quick adaptation to new skills and knowledge, become imperative. A firm that does not have the capability of responding, by identifying and taking advantage of new business opportunities, is less likely to succeed in the market place. In order to possess such capability, a firm needs to develop its human capital sufficiently. Human capital development is a systematic effort aimed at enhancing the skills and capacity of the human contents of an organization with a view to using them to achieve set organizational goals. It involves organizing a series of activities designed to produce some desirable changes in the capabilities of the workforce. According to Olufemi (2009), developing the human capital requires a focus on: training and development; new learning; leadership development; and, talent management (cited in Igwe and Igwe, 2011, p.190)

The core objective of human capital development is to increase the value of a firm’s human resource assets by improving their knowledge, skills, productivity and quality. More specifically, it seeks to create the type and quality of workforce that could be used in: securing competitive advantage for the firm; organizing a lean and relatively flat organization; and, constructing a responsive, adaptable, versatile and flexible system. In addition, it prepares workers for more job-specific training.

The attributes of a firm’s human capital can be viewed and understood from four dimensions (the 4-Cs): Composition; Competence; Contribution; and Commitment (Dyer and Holder, 1988). Composition describes the quantity, staffing ratio (gender, age, etc), skill mix and other aggregation or demographic descriptions of the workforce. Competence involves an analysis of the general level of ability of the human resource (in the context of what is required). Contribution is an indicator of the employee behavior in terms of output or productivity. Commitment indicates the level of employee loyalty, attachment and identification to/with the firm.

The drivers of human capital development

Human capital development is basically driven by education. However, a health dimension becomes imperative in the discussion because it adds up to the overall well-being and positioning of a person to receive knowledge and learning. Studies have demonstrated the fact that formal education, training and health are the most critical investments that raise the value of human capital. Even after discounting for a person’s IQ, social background and other such extraneous factors, it has consistently been found that people with higher level education invariably enjoy higher income. And, in less-developed countries, such people earn substantially above the average wage (Becker, 1993).

Education as a driver of human capital development includes formal education, such as that offered in public...
and private primary, secondary and tertiary institutions. This type of education may be provided by the individual himself or the government. The second type of education, on-the-job or in-service training, is ad-hoc and usually provided by the employer. The third type is the adult and other non-formal education such as vocational, technical and skills-acquisition institutions. This may be provided by the individual or government. Health includes services offered by primary, secondary and tertiary health institutions.

The link between human capital and economic growth

The reliance of industry on sophisticated knowledge has greatly accentuated the value of education, technical schooling, on-the-job training and forms of learning. Massive and widespread investment in human capital usually creates a workforce that possesses the skill-base that is necessary for economic growth. Indeed, there has been evidence that the 19th and 20th century growth in per capita incomes of a number of countries was driven in part by an expansion in scientific and technical knowledge. Also, the rapid recovery and reconstruction of the economies of the world powers that were defeated during the 2nd World War was a result of the Productivity of labour and other improvements linked to human capital development (Becker, 1993; Marshall, 1998).

Using a human capital model, Robert (1991), in more recent times, demonstrated that education significantly impacted on the development of human capital, and human capital in turn influences the economic survival, growth and development of nations. The dramatic growth of East Asian countries, notably Taiwan, Singapore, Hong Kong, Korea, Malaysia and Indonesia evidenced this finding. The brilliant economic performance of such Asian countries as Japan and Taiwan has further reinforced the importance of human capital to growth. In spite of the odds stacked against these nations in terms of their total lack of natural resources (non-human), population explosion, dependence on western and other nations for energy, and the discrimination against their products in western markets, they have grown internally and are currently dominating the world in most fronts using their well-educated, trained, conscientious workforce.

The Robert model can be extended to show how human capital impacts on business development ability of firms, just as it influences sustainable economic development at the national or aggregate level. The sum total of the gains deriving from business development significantly translates into consolidated economic growth and development of the economy (see figure 1).

Methodology

This study is mainly descriptive and relies on secondary data for analysis. The evaluative nature of the study allows the key research indicators, annual expenditure on education and health, to be used for making judgments
about the extent to which government policy supports human capital development in Nigeria. Even as it does not determine a cause and effect relationship between phenomena, descriptive research is nevertheless very useful in assessing a situation in order to pave the way towards making inferences and generalizations (Ndiyo, 2005).

The study attempted to evaluate the indicative impact of expenditure on education and health on the development of human capital based on secondary data. It also examined trends for the same indicators across a number of African, Asian and South American countries that have had or currently share some similar structural, cultural or developmental background and challenges as Nigeria. In this regard, data published by authoritative or official sources for a three-year period, 2003-2005, for Argentina, China, Japan, Mauritius, Morocco, Nicaragua, South Africa, South Korea, Thailand and United Arab Emirates have been used for comparative analysis.

RESULTS

Figure 2 and Figure 3 show comparative expenditure on the key drivers of human capital development, education and health, by the governments of selected countries in Africa, Asia and South America over a three-year period. The set data provide a basis for making assessment and further insight into the observable differences in national industrial and technological growth between Nigeria and the selected countries.

DISCUSSION

The data give a clear picture of the gaps that exist in Nigeria’s drive towards economic survival and sustainable transformation using the human capital. For instance, while Morocco, South Africa, Nicaragua, South Korea, Thailand and Mauritius invested 26.40%, 18.50%,
16.20%, 12.70%, 15.50% and 10.88% respectively of their annual national budget on education, Nigeria apportioned only 6.67% of its budget on the same sector annually between 2003 and 2005 (CBN, 2008; Education in Malaysia, 2011; Nation Master, 2011; Republic of Mauritius, 2011; Taiwan, 2011; Visual Economics, 2011). Japan, Nicaragua, Argentina, South Korea, Thailand and South Africa allocated 17.90%, 17%, 14.20%, 11.70%, 11.30% and 9.10% respectively of their annual budgetary expenditure to the health sector, whereas Nigeria had spent only 5.84% of its annual budget in the same sector between 2003 and 2005 (CBN, 2008; Education in Malaysia, 2011; Nation Master, 2011; Republic of Mauritius, 2011; Taiwan, 2011; Visual Economics, 2011).

Conclusion and policy recommendations

There seems to be a convergence of opinion that it is a nation’s human resources, not its capital or material resources that determine the nature, rate or speed of its development. In view of this, formal education can be said to be highly instrumental and even necessary for improving the productive capacity of a nation. However, for education to contribute significantly to economic growth and development, it must be of sufficiently high quantity and quality to meet the skill-demand needs of firms. This therefore makes investing in human capital worthwhile. Accordingly, large expenditure of public funds on education and the development of people can be justified, if rapid economic and social growth is the main goal of a nation (Olaniyi and Okemakinde, 2008).

It has been demonstrated in this study that identification and analysis of business development needs is the key for securing sustainable competitiveness by firms. However, for firms to be able to identify and act effectively on emerging market opportunities, they require quality human resources. This conclusion is reinforced by the fact that the recent significant scientific and technological transformation of a number of countries has

Figure 3: Average national expenditure on health as percentage of total annual budget (2003-2005)
largely been influenced by a massive investment in human capital upon which firms in those countries have leveraged. This clearly suggests a causal association between these two variables and human capital, and this gives scope for further research for conclusive establishment of such relationship.

Based on these findings it is recommended that the Nigerian government, at all three levels, should urgently review budgetary policy regarding education and health. Specifically, this will require an annual allocation of a minimum of 15% and 11% of all budgetary expenditure to education and health sectors respectively. These figures represent the aggregate average for all the other ten countries surveyed in this study. An effort in this direction is likely to keep Nigeria apace, in terms of human capital development, with the other rapidly growing economies.

At the firm level, it is recommended that organizations should invest significantly in building the capacity of their workforce by providing regular training, especially in high technology and ICT lines. Such training should focus on the type of knowledge that seeks to utilize the abundantly available natural resources. In addition to this, firms need to establish independent business development units as a separate function from marketing or commercial departments. This will allow for specialists to concentrate on searching for new business opportunities in both local and international markets.

References


