

THE MEDIATING ROLE OF ABSORPTIVE CAPACITY IN THE RELATIONSHIP BETWEEN THE DIMENSIONS OF HUMAN CAPITAL AND ORGANIZATIONAL PERFORMANCE: A CONCEPTUAL FRAMEWORK FOR THE TEXTILE SECTOR OF PAKISTAN

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ABSTRACT

Purpose:

The textile sector of Pakistan contributes 60% in-country export. Unluckily, this contribution constantly declines. This sector may be facing many structural problems like human capital at the national and firm-level. Even though, no model or criterion is available to capture the level of the human capital in this sector. By introducing these HC measures which will be specific to the textile sector will bridge this gap. This study will contribute to increasing the performance of the textile firms by increasing their absorptive capacity by focusing on specific human capital indicators.

Methodology:

In this study, a proposed model is discussed that will be based quantitative in nature. A closed-ended questionnaire was used. Data will be collected from 115 organizations and total numbers of 345 respondents. nature of this study is quantitative, The Education, Experience, Skills, Personal Attributes, Health, Training which was conceptualized as Human Capital Dimensions being independent variables while Productivity, Innovation, and Survivability were conceptualized as Firm Performance Dimensions being dependent variables and Absorptive Capacity being a mediating variable.

Findings:

Literature shows that the selected independent variables may be influenced by human capital performance while absorptive capacity plays the mediating role.

Conclusion:

The proposed model is useful to understand the employee performance and measure the employee performance in the textile sector of Pakistan.

1. Introduction

The performance of firms and the momentum of growth is largely influenced by the concept of Human Capital (HC). The economic value comes from accumulating the skills, knowledge, and competencies so work can be better performed. The researchers Mincer (1958), Schultz (1961) and Becker (1962) have coined the concept of HC which is found in the literature of economics. There are not many scholastic studies that have investigated the indicators of the human capital which are specific to the textile sector of Pakistan. This sector is facing many structural problems. The major problem is in analyzing the impact and measurement of human capital (CIPD, 2006). However, there is a disagreement that exists among the different researchers for selecting those indicators which can appropriately represent the concept of human capital (Friedman, Hatch, & Walker, 2001). The revival of the economy of Pakistan, now solely depends on the performance of the textile sector of Pakistan. Human Capital can increase the capacity of the firm to absorb knowledge, which results in affecting firm performance. According to a study by Liu, Zhao, and Zhao (2018), Absorptive Capacity (AC) has a direct and indirect effect on organizational performance.

1.1 Background of the Study

1.1.1 Textile Sector of Pakistan

The total export of the Pakistan textile sector is 9.6 million US dollars. This makes around 8.5 percent of Pakistan's GDP. In Asia, it is an interesting fact that Pakistan is employing 38 % of the country's total workforce and when it comes to export then it's at the 8th number when it comes to exporting the textile products of the whole country (Economic Survey of Pakistan, 2019-2020). There are many structural problems which are faced by this sector. Due to which, it not only decreased its production but since this sector is the backbone of the economy so it also affected the whole economy of Pakistan.

1.1.2 History of Pakistan Textile Industry

The Pakistan textile sector is the most profitable sector of the country and it earned up to US \$ 5.77 billion in the year 2003 and then it earned up to US\$ 5.577 billion in the year 2000-2001. This indicates that there was a growth of 0.69%. The total export of this sector in the year 2004 was US\$ 5.7 billion which was again growth of 2.5%. The sector again grew and reached 4% in the year 2005. The industry was growing but unfortunately, the industry growth was slow and even negative in 2006. After the year 2006, the growth slowed down and continued to be negative in the year 2007 also with a value of only 5%. In 2008, the textile sector struggled and there was growth seen of 15%. After that although the government allocated \$2.3 billion there was no proper implementation of this budget because of which the sector continued to decline in the year 2009 to 2014. The total implementation of the budget was only 15% which was a major flaw. The current allocation of the budget for the textile sector of Pakistan by the government is \$ 640 million for the year 2014 to 2019 (Economic Survey of Pakistan, 2018-2019).

1.2 Problem Statement

According to the Ministry of Textile (2020), the textile sector is the backbone of the economy of Pakistan. The textile sector of Pakistan is facing many structural problems. According to Table 1, the total country exports are declining and the textile exports are also declining but still, the textile sector is still contributing to 60 % of the total country export. There are many researches which are focusing on the financial and the manufacturing side which suggest improvements to revive the textile sector of Pakistan

but there is very little work done on HC for improving the performance of this sector. Finding those variables of HC which can bring back this sector to life is now very crucial. This is also stated by Smith (1776), in “An Inquiry into the Nature and Causes of the Wealth of Nations” in which he suggested that the wealth of a nation depends on the development and investing in its people. As the people play the role of an invisible hand. The insufficient training and unskilled labor have contributed to decreased performance of the textile industry (Khan & Khan, 2010). This sector has not developed the absorptive capacity to bring back its performance (Muscio, 2007). The performance of the textile sector has a major impact on the economy of Pakistan (Shah, Syed, & Shaikh 2014).

Table 1. Pakistan Textile Exports

	(US \$ Millions)							
	2012- 13	2013- 14	2014- 15	2015- 16	2016- 17	2017- 18	2018-19	2019-20 (July- March)
Cotton & Cotton Textiles	12628	13348	13139	12168	12248	13220	13031	9771
Synthetic Textiles	406	383	331	288	204	309.681	297.809	261.172
Sub-Total Textiles	13034	13732	13470	12455	12452	13530	13328.809	10412.172
Wool & Woolen Textiles	122	125	119	98	79	75.852	67.265	48.685
Total Textiles	13156	13857	13589	12553	12531	13606	13396.074	10460.8
Total Country Exports	24515	25131	23885	20802	20478	23222	22979.325	17450.735
Textile as % of Export	54%	55%	57%	60%	61%	60%	60%	60%

Source: Ministry of Textile

1.3 Research Gap

There is a major problem when it comes to studying the impact of human capital (CIPD,2006). There are many researchers who have taken different variables that range from job satisfaction to organizational tenure to study the concept of human capital at the national and as well as at the firm level. However, there is still today a major disagreement among different researchers on the appropriate selection of the indicators of human capital (Friedman, Hatch, & Walker, 2001). The textile sector of Pakistan is making a major contribution to that total export (Economic Survey of Pakistan, 2019-2020) of the country and its around 60%. This sector is facing major structural problems, even after that this sector is making a major contribution. So, this sector is proving itself to be the backbone of the economy of Pakistan. To bring this sector back on track is now very important if Pakistan wants to save its economy. The experts of this field have this opinion that human capital is the key to bringing this sector back on track because the experience and the skills of the employees contribute largely towards productivity. The skilled workers have better performance as compared to the workers who are not skilled. So, for this it is crucial for the firms to identify the skills of the employees which helps in contributing towards the performance of the firms (Fedyk & Hodson, 2017).

When it comes to the textile sector of Pakistan, then it is more difficult because there are

very few studies that are done on exploring what is forming human capital. It is because the firms in the textile sector are different from the firms of the service sector, so for this there is a requirement of a customized criterion which will help in measuring the human capital of the textile sector of Pakistan. The human capital measures which are specific to the textile sector of Pakistan and by carefully selecting the appropriate indicators of the human capital specific to the textile sector of Pakistan, this study will help in bridging this gap. When these dimensions will be identified then it will help the textile sector of Pakistan to achieve its objectives of performance by specifically focusing on these dimensions.

2. Literature Review

The human capital theory suggests that society and individuals gain economic benefits if they invest in people. The investments made in the human capital differentiates this expenditure from the consumptive expenditure of a household which provides not that much benefits as compared to investments in HC (Vaizey, 1962). The past researches which investigated the variables of HC seem to give more value to the experience, education, and training. Mincer (1958) has coined training and education to be the most valued elements of HC as according to him, the employee's income is the main source of difference in HC. On the other hand, Schultz (1961) has considered that employee's health and internal migration are also important elements of HC. Investing in HC results in improved skills and abilities. It is observed that productivity differences are resulting from differences in training, health, and education. The training, education, and experience are considered important but personal skills and personal characteristics are given value too (Hatch & Dyer, 2004; Youndt, Snell, Dean, & Lepak, 1996). Gaining competitive advantage is the key to survival. It seems that firms have to concentrate on developing their HC. This investment in HC can result in developing the ability of the firms to absorb the new technology and also help in developing their capability of innovation. There are many researches which are confirming this (Argote, Ingram, Levine, & Moreland 2000; Marimuthu, Arokiasamy, & Ismail, 2009). One of the examples is Argote, Ingram, Levine, and Moreland (2000) have considered that by developing the HC through experience and by gathering this experience by using teams which are cross-functional are some common experience bases. Because of this, it can initiate the developments and innovation of products. This concept is supported by Hatch and Dyer (2004).

The performance of firms can be increased if a continuous investment is made in HC. There are many researches which shows that there is a significant and direct impact of HC on firm performance. Ang and Madsen (2015) identify strong links between productivity, education and skilled worker in OECD countries. According to a study by Liu, Zhao, and Zhao (2018), Absorptive Capacity (AC) has a direct and indirect effect on organizational performance. AC can play a critical role in sustaining organizational performance through employee's skills, abilities, and education (Shahzad, Ying, Rehman, Zafar, Ding, & Abbas, 2019). Barrionuevo, Molina, and Morales, (2019), have researched that enhancing the potential and realized absorptive capacity at the same time can result in new business venturing and self-renewal. Furthermore, AC can influence internal labor flexibility, innovation, and performance (Sánchez, Morales, & Rojas, 2018). AC increases the organization's knowledge creation capability (Raisal, Tarofder, & Haleem, 2019). The training which is given to the workers is designed to help them in acquiring the skill and the knowledge to better perform their jobs (Fitzgerald, 1992). Specific to the textile sector of Pakistan, specific independent, dependent and a mediating variable is proposed to bring back performance in the textile sector.

2.1 Independent Variables: Dimension of Human Capital

2.1.1 Training and Education

The variable which is more prominent and also represents the concept of human capital is education which is considered by Beck (1964) as a formal process which helps in learning. Mincer (1958) has coined training and education to be the most valued elements of HC as according to him, the employee's income is the main source of difference in HC. According to Mincer (1958), experience is the more precious for human capital.

2.1.2 Health

Schultz (1961) has considered that employee's health and internal migration are also important elements of HC. Investing in HC results in improved skills and abilities.

2.1.3 Experience

Argote, Ingram, Levine, and Moreland (2000) have considered that by developing the HC through experience and by gathering this experience by using teams which are cross-functional are some common experience bases. Because of this, it can initiate the developments and innovation of products. This concept is supported by Hatch and Dyer (2004).

2.1.4 Personal Attributes and Skills

The training, education, and experience are considered important but personal skills and personal characteristics are given value too (Hatch & Dyer, 2004; Youndt, Snell, Dean, & Lepak, 1996). Gaining competitive advantage is the key to survival. It seems that firms have to concentrate on developing their HC.

2.2 Mediating Variable: Absorptive Capacity

According to a study by Liu, Zhao, and Zhao (2018), Absorptive Capacity(AC) has a direct and indirect effect on organizational performance. AC can play a critical role in sustaining organizational performance through employee's skills, abilities, and education (Shahzad, Ying, Rehman, Zafar, Ding, & Abbas, 2019). Barrionuevo, Molina, and Morales, (2019), have researched that enhancing the potential and realized absorptive capacity at the same time can result in new business venturing and self-renewal.

2.3 Dependent Variables

A research which was conducted by Seleim et al. (2007), the results revealed a very strong relationship between the human capital and the organizational performance. The research findings show that the human capital indicators have an association which is positive with the organizational performance.

2.3.1. Productivity

It is observed that if the organizations want to build competitive advantage for a long time then their productivity is very important. According to Drucker (1999 p.26), "Without any objectives of productivity, a business doesn't have a direction. Without any measurements of productivity, a business doesn't have any control". Production efficiency can be measured through the output and input ratio. According to Co-operation and Development (2001), the measuring objective of productivity can include measuring the efficiency, technological change, cost savings and the bench marking the process of production.

2.3.2. Innovation

Innovation is a process which helps the commercialization process of ideas by transforming them (Schumpeter, 1942). Innovation performance measures how well ideas are executed and how much value is generated. In measuring innovation, two types of indicators are used: input-based and output-based (Rosenbusch et al., 2011). We adopted the scale of innovation from Adegoke et al. (2007).

2.3.3. Survival

Survival of a firm means a firm's ability to remain on a business sphere. The most prominent factors that affect the survival of a firm are its age and scale. A change in a firm's scale of operation also reflects its degree of survival (Taylor, 1999). With reference to Mata and Portugal (1994), Mata and Portugal (2002), Strotmann (2007) and Taylor (1999), we placed firm experience in the industry, change in cost of production, decision to reduce operations and employment, degree of losses and management perception on the survivability of the firm as major factors to represent survival.

3. Methodology

3.1 Research Design

This research is directed towards explaining and assessing the relationships (correlations) between the multiple aspects of the phenomenon (Human Capital) so a better understanding of its underlying causal mechanism of the phenomenon can be understood. After looking at the research model, a cross sectional design will be decided to be appropriate. First, there will be no dimension of time which will be integral when conceptualizing the proposed adoption factors that can affect how they are measured or theorized. Second, the research will attempt to measure the variables which are proposed on variance or by differences in the perceptions of the individuals rather on how the perceptions change with time after changes in environment or after an intervention which is controlled like in a longitudinal study, an experiment or an event study (respectively). This study will have an empirical stage by collecting data only in one point in time. Third, the analysis of the data will be depending on differences that exists between groups or individuals (such as the differences because of demographics) rather the differences, which are from interventions or manipulations. A questionnaire will be used to collect quantitative data from textile industry. A survey will be used, it is a closed, structured research method which is used when the researchers are interested in learning about the people's opinions and beliefs regarding a particular issue. After going through the existing literature, the research problem was identified. The conceptual framework was made after the content analysis for this research. The framework was declared valid after expert opinion and pilot test. The data will be collected through a survey instrument from the target population and was then analyzed by using the statistical techniques which are inferential and descriptive techniques such as mean, percentage, standard deviation, Structural Equation Modeling (SEM) and correlation. The present study is a quantitative research because the data is collected by a questionnaire and it facilitates the generalization of the whole population. In this method, the data is collected on an encoded instrument which produces the statistical data (Creswell 2013). A close ended questionnaire was used to collect data which captured the dimensions of the all variables.

3.2. Population and Sample

The populations of the study will be employees working in textile firms existing in Pakistan. The list of the firms was accessed through the database of State Bank of Pakistan.

3.3. Sampling Technique

The sampling will be a two-fold process. First the selection of organizations, as there exist list of firms in Textile sector (SBP 2015). From each firm 3 employees were selected. The random sampling is a type of probability sampling (Saunders 2011) for selecting 115 companies. After selecting the companies, the 3 employees were selected from each organization.

3.4. Sample Size

According to State Bank of Pakistan (SBP) there exists 164 companies in textile sectors in Pakistan. We selected 115 organizations out of the 164 which is around 70% of the sampling frame and sufficient to infer about the whole sampling frame. From each firm 3 employees will be selected and in this way the data was collected from $115 \times 3 = 345$ employees. However, responded will be discarded on the basis of blank responses and outliers.

3.5. Data Collection Instrument

To collect the data from the respondent a structured questionnaire will be used. The questionnaire will be developed in two parts. The first part contained demographic variables while the second part contained the questions regarding human capital and performance etc.

3.6. Measurement of Variables

The research model in this study includes the following variables: Education, Experience, Skills, Personal Attributes, Health, Training which were conceptualized as Human Capital Dimensions being independent variables while Productivity, Innovation and Survivability were conceptualized as Firm Performance Dimensions being dependent variables and Absorptive Capacity being mediating variable. Generally, there are two common methods to measure a conceptual variable. One is to use existing measurement scales from the literature and the other is to create new measures. Just as the use of existing, reliable and validated scales is recommended, the creation of newly validated instruments is equally highly recommended because such effort “represents a major contribution to scientific practice in the field” (Straub et al. 2004).

4. Results and Discussion

Conceptual Framework- Analyzing HC- Firm Performance

From the literature review, a framework is formed especially for the textile sector of Pakistan. The frame work was declared valid after expert opinion and pilot test. By studying the variables, it is found that there is a traditional view by the economist which existed in 1960's, which was stating that there was a demand of education which was considered compulsory as compulsory as the consumption of goods and this depended on the income of the family, education cost and the preferences which were in the form of paying off tuition fees. There were many economists who would leave this phenomenon to the social psychologist and the sociologist that the abilities and the preferences depends on the student's social background which is particularity made up of the education levels of their parents. This was an old view that started to change when economists like Schultz, Becker, and Mincer proposed humans as capital and they started to consider the expenses on training, health, and education as investments. With this idea of HC, they further considered it be a major factor which affects the productivity level at both the societal and the individual level as well. An example is given by Mincer (1958), he stated that the income differences are recognized as the differences in the developmental level of HC. According to him, he sees it as an investment in the Human Capital which is responsible for the differences in personal income and also productivity. On the other hand, Schultz (1961) have discussed the HC dimensions which can help in explaining, in how the HC can affect the country output. For the growth at the micro and macro level, he introduced the importance of investing in HC as major factor. At the beginning of his study, which was entitled “HC Investments”, he explained that there is a difference in increase of resources (labor, land, physical resources) and an increase of

country output. According to him, he points out that these differences are because of the investments made in HC. So, it was concluded that the output at the micro and the macro level is directly affected by HC. So, for growth, the growth of HC is inevitable. Likewise, Becker (1964), also presented the increase of the future real income of a person is directly affected by investing in HC. According to him, the firm performance is also affected by the investments made in the HC and it also contributes towards the growth of an economy.

Becker (1964), have considered On the Job Training, health, and schooling as the main constitutive factors of the Human Capital. On the other hand, the theories which are discussing the objectives and the nature of the firms are always considering the Human Capital as an important factor for the firms to be competitive. According to the Resource-Based View (RBV) which contributes towards the firm's competitive advantage. They consider four important characteristics which are non-substitutability, value addition, inimitability, and rareness. There are two ways in which a company can achieve its competitive advantage. First is the incentives and the training, selection, and recruitment and some other practices which can help in making the HC more valuable, rare, inimitable, and non-substitutable (VRIN). The RBV has considered the HC to be an important and also a major source in generating the competitive edge of a company, a company which can have all these characteristics of VRIN is gaining the attention of strategic managers who can focus on their HC as an important course for sustaining their competitive edge. Secondly, the firms can focus on their competitive edge by investing in the physical resource and also the technology (Delery & Shaw, 2001).

However, for shaping sustainable competitive edge, the knowledge which is carried by the HC is the most important and valued, inimitable resource and non-substitutable, it is because it specialized and also hold some implicit knowledge which is unique and specialized (Coff, 1997; Grant, 1991, 1996). It is very interesting that HC cannot be copied because to find its specific facet which is giving advantage and to replicate them is not easy and is nearly impossible. The empirical literature is showing evidence that the HC is a major source in sustaining the competitive edge of companies (Becker, 1962; Coff & Kryscynski, 2011; Ployhart, Weekley, & Baughman, 2006; Prahalad, 1983). Representing the same point, Hitt, Ireland, Camp, & Sexton (2001), said that the learning ability of human resource grows as the experience increases. Thus, the feedback effect which is resulting from the relationship between the Human Capital (experience) and the learning of HC. It is observed that the learning is creating some specific Human capital (tacit knowledge) which in turn can enhance the firm's learning performance. According to RBV, when a firm has superior Human Capital which is according to their firm then they can create a competitive edge, as the human capital of that firm can reduce the cost of the firms by learning by doing.

Further, there is evidence in the literature that HC directly affects the performance of the firm. Indirectly speaking, Human Capital can increase the capacity of the firm to absorb the knowledge, which results in affecting the firm performance. Against this background, the analytical framework is presented, which is taking on one end Human Capital comprehensively, and on the other hand, performance. Additionally, this framework is also taking into account the absorptive capacity, the important role of the absorptive capacity is studied over here, is as a mediator. Figure 4.1 presents the proposed analytical framework.

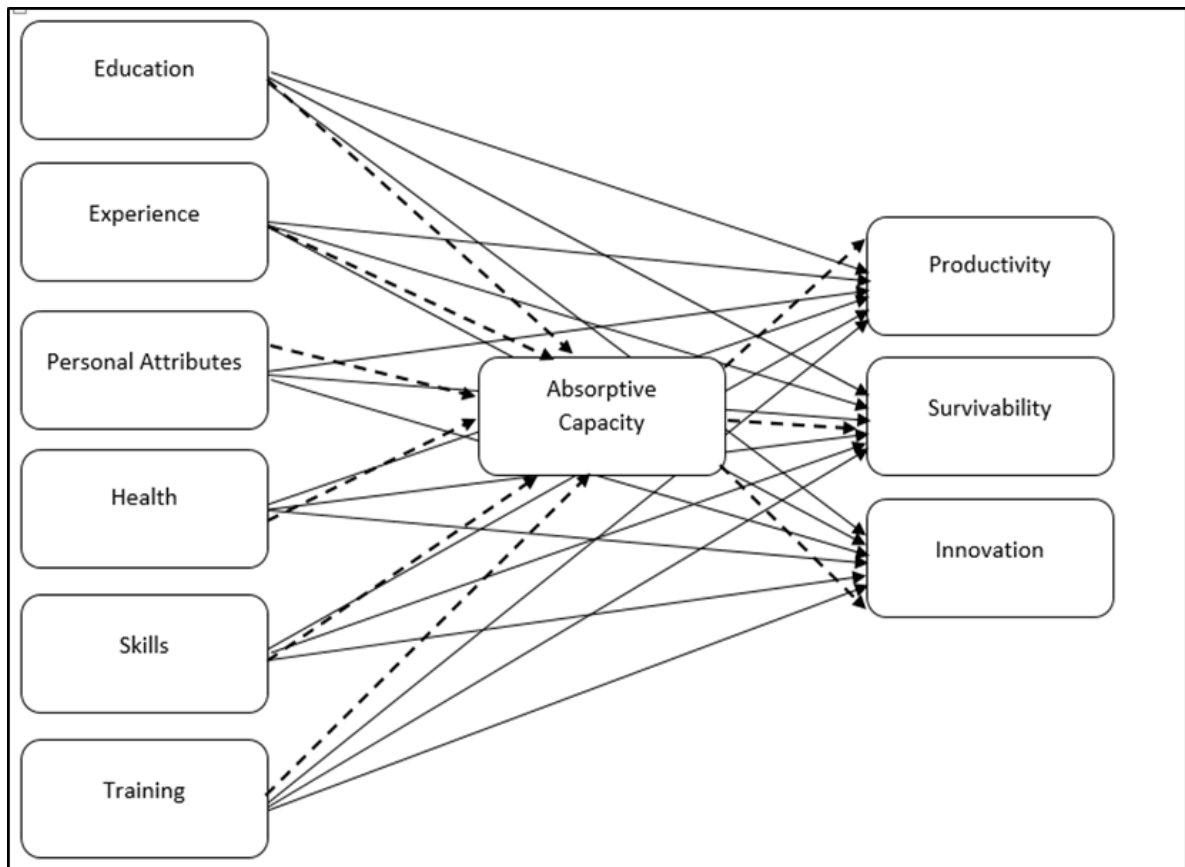


Figure 4.1 Conceptual Framework for Analyzing HC-Firm Performance
Source: Author's own elaboration

The research objective of this study is to find the impact of HC on organizational performance in the textile sector of Pakistan. The HC variables are gauged by six variables and the performance variables are gauged by three latent variables. There is a mediating variable introduced which is absorptive capacity. The aim of this research is to study the role the mediating variable which will play in improving the organizational performance of the textile sector of Pakistan. Figure 4.1 analyzes the HC dimensions and their effect on the organizational performance variables by keeping a mediating variable which is absorptive capacity. In order, to study these relationships, there will be a total of 36 hypotheses that will be tested. This study will use Structural Equational Modeling (SEM).

5. Conclusion

It is an assumption that the HC dimensions like the training, experience, and education have the same type of influence on all the cords of performance of a firm (Tavares & Teixeira, 2005; Teixeira, 2002). But there exists literature which is not in favor of this. Some examples are Berg (1970), Hotchkiss (1993) and Rumberger (1987) have stated that education has no effect on the productivity of a firm. Medoff and Abraham (1980, 1981) further stated that the experience is an important cord of the human capital and it is also linked with the higher earnings level but it's not linked with the higher level of performance like an increase in productivity. There are researches which have looked into the relationship of HC with the performance indicators of a firm like innovation and productivity but there is a lack of empirically done researches on investigating the different dimensions of the HC and its effect on the performance dimensions like innovation, productivity, and survival (Bontis, 2001). The focus of this study will be to find out this area by exploring the effect of HC and its different dimensions on the

productivity, survival, and innovation of a firm. Similarly, the role of the absorptive capacity as a mediating variable is not explored and its effect on the organizational performance (Vinding, 2006). This research will focus on examining the role of the mediating variable as specific to the textile sector of Pakistan. This research will play an important role in improving the performance of the textile sector of Pakistan. It will help all sizes of the textile companies in every part of Pakistan. Other than this, it will help the policymakers to better design policies at governmental and firm-level to better guide the textile industry in bringing back its performance.

The main issues of this sector are; lack of training programs, lack of investment in up-gradation of technology, lack of experienced and skilled labor, inappropriate education and lack of health and safety for the workers (Alam & Khan, 2010; National Bank of Pakistan, Research Division, Industry and Economic Bulletin Quarter 1, March, 2017; Khawar, Mukhtar, Javaid, & Javed, 2018). Pakistan textile manufacturer has always focused on improving its financial and manufacturing side but has always ignored investing in human capital. As stated earlier, by Smith (1776), the wealth of the nation depends on investing in its people. According to a study by Liu, Zhao, and Zhao (2018), Absorptive Capacity (AC) has a direct and indirect effect on organizational performance. The textile sector has not developed the absorptive capacity. The mediating role of absorptive capacity in increasing organizational performance is directly linked with selecting the appropriate indicators of human capital (Cassol, Gonçalo, & Ruas, 2016). Mariano and Walter (2015) suggest that empirical researches on the absorptive capacity in the fields of knowledge management and intellectual capital should be directed to explore and explain contributions of intellectual capital factors to organizational dynamic processes. The study by T.-C. Lin, Chang, and Tsai (2016) explored the relationship between the loss of knowledge and decrease of absorptive capacity, providing empirical evidence on impacts of the loss of knowledge including in performance decrease. To increase organizational performance, organizations must focus on their human capital (Alnachef & Alhajjar, 2017). Human capital will lead to better absorptive capacity, which will lead to organizational performance (Kazmi, 2019).

6. Implications

This research framework will help the managers of the textile sector by focusing specifically on the variables to bring back the performance. In a sociological and economic interpretation, the human capital theory states that it's a theory about the relationship of cost-benefit and the investments which are made in the human capital, employer income, worker, and productivity. It addresses some very important questions which are whether investing in the education of employees results in more income and higher productivity for the workers and the organization as well. The studies which were conducted by Penrose (1959) states that the start of the Resource-Based View (RBV) of the firms was further studied by Rumelt (1984), Barney (1991, 1995) and Dierickx and Cool (1989). The RBV states that the significance of a collection of valued resources by a firm is very important and the firm can use this skilled human capital for its performance objectives and it can serve as a unique and dynamic asset of the firm. Mincer (1958) has clarified that the differences in wages are linked with the different levels of advancements in human capital. According to him, the differences in the wages and the level of efficiency is dependent on the investments made in the human capital. Schultz (1961) discusses, how human capital can be measured which is linked with influencing the national yield of the country. He explained further that if the firms want benefits from their HC then they must invest money which is fundamental for the HC development at a small and at a large scale also.

Becker (1962) has studied the impact of the actual future salary, he studied that if firms will invest in their HC then the future salary of their employees will increase. He also explains that when a firm invests in their HC then it helps the firms in better execution and it helps them in their financial development also. Smith (1973) gave a very accurate definition of the human capital that is, it's the abilities that are acquired by the employees. The talents which a firm acquires in the form of employees are mastered by other employees. According to him, in his study, education is a cost that is always in the form of actual or a real expense and it is always a fixed capital that is realized by the performance of the employees. By reviewing the past researches, this research will further confirm the value of the past researches and it will contribute by confirming those dimension of the human capital specific to the textile sector of Pakistan which when the firms of the textile sector will focus on these specific dimensions will bring improvement in their performance and it will result in increased productivity. The textile sector of Pakistan is facing a constant decline. The contribution of this study by using the human capital theory is that it will help in identifying those human capital dimensions which are specific to the Pakistan textile sector and this study will help in letting the firms focus on these dimensions only for gaining the cost-benefit relationship. Thus, focusing on the importance of making investments in human capital, so the employer's income and productivity can increase.

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