HUMAN CAPITAL RESOURCE AND PERFORMANCE OF MOBILE PHONE COMPANIES IN KENYA

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ABSTRACT

The purpose of this study was to examine the effect of human capital on performance of mobile phone companies in Kenya. The study used explanatory. The target population was 381 respondents and the sample size was 170 respondents from the four mobile phone companies in Kenya. The research adopted stratified random sampling technique. The study used mainly primary data which was collected using self-administered questionnaires. Data was analyzed using inferential statistics. The analysis used stata statistical package version 11.0 to aid data analysis. The results were presented using tables. The findings indicated that human capital had a positive significant effect on performance of mobile phone companies. The study recommends that human capital is a key player in establishing performance therefore; managers should introduce more training to improve human capital skills.

Keywords: performance, human capital, resource-based view, mobile phone companies.

1.0 INTRODUCTION

The conditions of performance constitute a major research theme in strategic management which has been going through a major shift from 1990s to date (Rossue and Daellenbach, 2009). Mckelvie and Davidsson (2009) argued that a firm is said to enjoy higher performance than competitors when it puts into practice a value creating strategy and hence, the process of creating superiority in performance is consistent with the Resource Based View theory of the organization. The Resource Based View perspective puts emphasis on firm specific resources and capabilities as elementary sources of competitive advantage (CA) which results to high performance (Barney & Hesterly, 2010).

According to the Resource Based View theory, performance results from competitive advantage (CA) which originates from the possession of distinctive resources and capability that must fulfill the conditions of valuability, rareness, inimitability and non-substitutability (VRIN). Valuable resources add to improving the firm's performance. Rareness creates perfect competition since resources are possessed by fewer firms. Inimitable resources are costly to copy and non-substitutable, meaning that there is no alternative to fulfill the same function immediately (Arend & Levesque, 2010 & Barney, 2011).

Resource Based View of the firm states that not all firm's resources generate superior performance but only certain types that are controlled and owned by the firm (Barney, 2007). According to Wang and Mahoney (2009), learning through training and development practices in the firm makes human resource to be more specific and potentially not of much use to the competitor thus making it inimitable and hence leading to higher market shareholding than the rival's. Human resource is in form of knowledge, experience, ability and skills rooted among employees of the organization. Tactical knowledge acquired by a firm cannot be easily duplicated by rivals, since it is implanted in the human skills and experience of a firm which leads to profitability (Lazear, 2009).

2.0 Theoretical Literature

2.1 Resource Based View

Resource Based View was first advanced by Penrose (1959) who argued that a firm's superior performance is achieved when the resources are controlled by the firm. How a firm controls its key resources will determine its performance (Wernerfelt, 1984). The focus of the RBV is on attributes of resources and capability from the source they are gained to clarify a firm's heterogeneity, performance and sustainability (Morheney and Pandian, 1992). According to Collini and Montgomery (1998), resources are substances of approach in that gaining dominance in an aggressive marketplace is dependent on firm capability to recognize, build up, position and safe guard meticulously resources that differentiate it from its competitors.

Barney, Wright and Ketchen (2001) noted that every firm owns a diverse outline of tangible and intangible resources. Barney is one of the late contributors of RBV who studied and established the existence of key firm resources for superior performance. The theory of RBV assumes that individuals are inspired to make maximum use of economic resources available and rational choices that a firm makes which are shaped by economic framework (Barney, 2007). Resource Based View theory in this study played a role of evaluating and explaining resources and capability of a firm that have the capability to create and maintain a firm's advantage and thus higher performance among the mobile phone industries in Kenya (Sheehan & Toss, 2007).

Complex packages of skills, obtained knowledge, ability and experience that facilitate the company to manage activities of the firm and make use of resources to create performance through coordinating and putting resources into proper production use is what defines capability (Barney, 2007 and Mckelvie and Davidsson, 2009). According to Lockett, Thompsons and Morgensrern (2009) on strategic management, RBV scrutinizes the resources and abilities that facilitate how the firm will produce above the ordinary rates of return and higher performance benefits.

The theory of RBV contributes in enabling the firm managers to check whether factors relevant to superior performance exist or not. This enables them to be in a position of exploiting market imperfection to advance their performance. That way, managers are put in a place where they can combine resources to sustain their performance advantage. Resource Based View theory provides the benefit to the firm specifically highlighting factors that create superior performance for a firm (Locket, Thompson and Morgenstern, 2009). Resource Based View allows executives of the organization to choose the most important strategic factors to invest in from a given range of probable strategic factors in the mobile telephone industry.

Barney and Hesterly (2010) advanced that resources in general include the following key constructs: resources, capabilities and competences. In strategic management literature, resources are defined as stocks of accessible things that are possessed by the firm. Competencies are the firm's strengths that enable it to better differentiate its products or service quality by building technological system to respond to customers' needs, hence allowing the firm to compete more efficiently and successfully than other firms (Arend and Levesque, 2010 and Anderson, 2011). Resource Based View has contributed in strategic management through its emphasis on firm-specific resources as bona fide source of CA and high performance (Mckelvie & Davidsson, 2009).

For a firm to have CA and superior performance, resources and capabilities have to qualify as exceedingly valuable, rare, inimitable, and non-substitutable. Resources that are valuable add to

advancing the firm's performance. Rareness creates ideal competition in view of the fact that resources in that category are possessed by fewer firms. Inimitable resources are costly to duplicate and non-substitutable, meaning that there is no alternative to accomplishing an equal function instantly available to competitors (Barney 2007, Barney and Hesterly, 2010). Tangible resources are physical substances that an organization possesses such as facilities, raw materials and equipment. Intangible resources include corporate brand name, organizational values, networks and processes that are not included in normal managerial-accounting information. Intangible resources are more likely to generate competitive advantage and superior performance as compared to tangible resources (Rouse & Daellenbach, 2009 & Kenneth *at el.*, 2011).

2.3 Empirical Review

2.3.1 Human Capital Resource and Performance

For human capital to be unique and provide higher performance than competitors, the firm must invest in its employees in terms of time and money through training and development and education (Lazear, 2009). Human resources obtained from opponent's suit some of its competitors, although it must go through a phase of vibrant alterations in terms of cost while fitting it to the needs of the changing environment (Wang and Mahoney, 2009). Firm's knowledge, skills and experience can create superior performance in a firm if they are fruitfully used to add value in enabling learning and they are applied to making decisions which are superior to those of competitors (Lazear, 2009). Though the studies were analyzed using multiple regressions which was adopted for the current study, the studies used RBV theory only, which was used in the current study together with organizational learning theory.

Guthrie, Flood, Liu and McCurtain (2009) in a survey which was done in Ireland in work systems found out that for a firm to retain its high performance, demand for labor must be heterogeneous, implying that the firm will have different jobs that will require different skills, and so the supply of labor must also be heterogeneous in that individuals will always differ in both the type and level of their skills, knowledge and experiences. The study concluded that high quality human resource with high ability are defined to be rare and it is measured through cognitive ability which has been constantly illustrated to have a strong positive correlation with individual job performance. This is in agreement with Unger, Rauch, Frese and Rosenbusch (2011) who argue that cognitive ability has been frequently used to test the value selection in the organizational usefulness in the research on the relationship between human capital and entrepreneurial success. However, these studies tested for a direct relationship between the independent and the dependent variables, whereas the current study tested for indirect relationship by introducing mediating and moderating variables.

Social complexity of human capital occurs when the social phenomena is so complex for it to be influenced, that is, it is inimitable by competitors (Guthrie *et al.,* 2009). This is in agreement with Kenneth, Anderson and Eddy (2011) in the suggestion that social complexity arises from human interaction and transaction specific relationships, which are normally complex. The research explained that the relationship between key personnel, like sales representative and buying agents or buyers, over time develop and become a group of network that includes marketing staff, production, distribution staff, management and final consumers. This ends up being very complex in nature and difficult to influence, hence resulting in high performance. The study of Keneth *et al.,* (2011)

however used interviews as a data collection instrument and was done on a basket ball programme, not mobile phone companies.

According to Zarutskie (2010), if a company desires to sustain its competitive advantage, then it must understand the components of the human capital resource that can contribute to above-average profitability. The research claimed that human capital can only be measured through knowledge, experience, skills, competencies and cognitive ability. This is in contrast with Hotice (2010) who indicates that human capital is measured through results. A study by Barney and Hesterly (2010) asserted that casual ambiguity exists when the link between the firm's human resource and competitive advantage is hard to understand, making it complicated for competitors to duplicate the responsible resource for profitability and market leadership. Although the study showed a positive direct relationship between human resource and competitive advantage, it did not establish an indirect relationship between human capital and performance by either mediating or moderating the relationship, which was done by the current research.

Wernerfelt (2011) found out that the features of an organization's team may gratify the state by accomplishing and sustaining competitive advantage. Also, it was noted that singly, superior skills with distinctive resources can mutually create the firm's superior performance. Coff and Kryseynski (2011) quantitative research noted that better education of employees leads to more productive human resources and proved that the correlation between education and cognitive ability is strong. However, the current study adopted the use of quantitative data as it was adequate for the research. Mackey, Molly and Murris (2014) advanced that knowledge and skills are unpredictable, but once they are gained they stay moderately established. The studies used survey design and correlation method to test the relationship, which the current study considered insufficient, and hence this study employed both explanatory and descriptive survey.

Human resource can shift from one firm to another because some time it is not easy to guard against headhunting by rivals. Nevertheless, human capital is considered to be the most important and unique resource if, and only if, it is specific and exists in an environment where it was initially developed (Nyberg *et al.,* 2014). Further, the study indicated that human resource as stock originates from employees' selection, training and development, which increase firm specificity and decrease inimitability, resulting in a better firm's performance. For a firm to gain superior performance, management requires to possess technical, human and conceptual skills. The three skills when combined are important to producing superior management for superior performance. The above study employed RBV which was adopted for the study together with organization learning theory.

A collection of managerial skills facilitate a firm to set up the exact skills needed to cope with the precise situations Mackey *et al.,* (2014). In addition, the study noted that human resource is increasingly becoming a source of competitive advantage, so it is important for a firm to assemble up a workforce that has the capacity to attain superiority without being duplicated by competitors. The study of Mackey *et al.,*(2014) looked at human capital as an independent variable and competitive advantage as a dependent variable, whereas the present study treated competitive advantage as a mediating variable but maintained human capital as one of the dependent variables.

3.0 METHOLOGY

3.1 Research Philosophy

The research adopted positivism research philosophies since the literature upon which the study was formed was characterized by testing of hypothesis from existing theories through measurement of observable social realities, using data originally collected (Saunders *et al.,* 2007 and Eriksson and Kovalainen, 2008). The philosophy is based upon values of reasons, truth and validity and there is a focus purely on facts measured empirically using quantitative methods survey, and the data is statistically analyzed (Eriksson and Kovalainen, 2008). According to Saunders *et al.,*(2009), Positivism philosophy is commonly used in natural sciences because it is an objective-based method and it is used in the testing of hypothesis from existing theories. The study was based on quantitative data which was statistically analyzed; hence the reason the study adopted positivism philosophy.

3.2 Research Design

According to Saunders *et al.,* (2003), there is no single perfect design; therefore, the study employed descriptive survey design which was cross-sectional in nature and explanatory design to achieve the best results. According to Mugenda and Mugenda (2003), descriptive survey enables researchers to summarize and organize data in an effective and meaningful way. Descriptive survey method focuses on finding out who, what, where, when and how much. It was found suitable because it sought to produce accurate profile of factors, events and situations (Cooper and Schindler, 2003). According to Eriksson and Kovalainen (2008), descriptive research involves producing data that is holistic, contextual and with rich details to test hypotheses or answer questions concerning the current status of the subject of the study.

Explanatory research attempts to clarify why and how there is a relationship between two or more aspects of a situation or phenomenon. The explanatory research design was the best to explain the characteristics of the variables and, at the same time, examine the cause-effect relationship between variables. Cross-sectional design allowed collection of quantitative data from a population in an economical way (Saunders, Lewis & Thornhill, 2009).

3.3 Empirical Model

According to Eriksson and Kovalainen (2008), several models can be used in analyzing quantitative data, which include Probit, Logit and Regression models. Probit and Logit are used when the dependent variable is dichotomous. In the current study, the dependent variable is continuous, so Regression model was the most suitable. Simple linear regression was used to access the ceffects of the independent variable on the dependent variable.

The model was presented in a linear equation form. Using multiple linear regression analysis, it is possible to calculate the values of the constant coefficient ($\boldsymbol{\beta_0}$) and the slope coefficients ($\boldsymbol{\beta}$) from data already collected.

The overall equation of the effect of independent variables on performance:

$$Y = \beta_0 + \beta_1 HC + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{ 3.1}$$

Where,

β_0 = Constant

β_1 to β_2 = The slope

HC = Human Capital

3.4 Target Population

The target population included all the four mobile phone companies listed and licensed by the Communication Commission of Kenya as at (2014). The accessible population was mobile phone companies in Nairobi County where the headquarters are located, with a total population of 381 managers which included top, middle and lower level managers.

3.5 Sampling design and procedure

The study used proportionate stratified random sampling techniques to select the required sample from the target population of 381 managers, drawn from the three strata of top, middle and lower-level managers of the mobile phone companies in Kenya. Based on the total population of 381 managers, a sample of 170 was determined using Saunders *et al.,* (2009) sample size determination table at 95% confidence level (Appendix 5). This was then distributed proportionally in the strata as per Pedhazur and Schmelkin's (1991) formular below:

$$r = \frac{c \times s}{p}$$

Where

r is respondent required from a stratum

c is stratum population (category)

s is the desired size (170)

p is the total population (381)

Through the above formula, the sample size is as per the table 3.3 below

3.7 Data Collection Instruments

The study used mainly primary data, which were collected using a self-administered structured questionnaire. This study also made use of secondary data obtained through document review of companies' reports. Structured questionnaires were used in this study since they enabled the researcher to collect quantitative data (Gall and Borg, 2003). The questionnaire consisted of seven main parts which were: Part A for personal data covering item 1 to 3, Part B for organizational bio data item 4 to 6, Part C for organizational performance item 7 to 10, Part D for human capital item 11.

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3.8 Data Analysis Methods

After the questionnaires were collected from the field, data cleaning was done to correct any error that might have occurred during data collection and eventually the data was coded, ready for analysis. Quantitative data was analyzed using inferential statistics. Inferential statistic was carried out using simple regression models to determine the effect of independent variable on the dependent variable. The adjusted coefficient of determination (R-squared) was used to indicate the percentage of variability of the variable that was accounted for by the factor under study**.** This was followed by determination of standardization beta (β) coefficient which indicated the direction (+ or -) and the magnitude of the influence as well as compare the relative contribution of independent variable in the firm's performance (Hair *et al.*, 2006).

4.0 ANALYSIS AND RESULT

4.1 Regression results

Table 4.10: Effect of human capital on performance

Goodness of fit	Test Statistic	P-value	
Adjusted R-squared	0.654		
F-statistic (2, 132)	60.35	0.000***	
Dependent Variable= Performance	**Linear Regression Results**		
	Coefficients	**t-statistic**	**P-value**
Human Capital	2.142	8.20	0.000***
Dummy: Airtel	-4.287	-6.73	0.000***
Orange	-1.1704	-1.70	0.091
Yu	-11.948	-15.64	0.000***
Constant	-19.934	-1.82	0.071
Key	** significant at 5 percent		
	*** significant at 1 percent		

Source: (Survey data, 2014)

$$Y=-19.934+2.124HC+ \varepsilon \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots 3.1$$

Table 4.10 shows that the adjusted R-squared is 65.4%, meaning that the independent variable explain approximately 65 percent of variations in the dependent variable. The F statistic is 60.35, with a P-value of 0.000, which implies that the independent variables are jointly significant in explaining variations in mobile firms' performance. Hence, human capital is significant in explaining variations in performance. Human capital coefficient is positive and significant at 2.142 and P value = 0.000 < 0.05. The regression results indicated that increase of human capital by one unit would have a corresponding increase in performance by 2.142. This is in agreement with Lazear's (2009) findings that human capital creates performance in a firm if it is fruitfully used. The findings were also in line with Guthrie, Flood, Liu and Mccurtain (2009) that human capital leads to better performance. The findings are in line also with the findings of Nyberg *et al.,* (2014) that human capital results in superior performance. The RBV theory by (Barney, 2007) heavily supports the findings in that human capital is unique and costly to copy, hence it directly relates to superior performance.

5.O SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The performance of the mobile phone companies in Kenya seems to have been stagnated for a period of time despite the availability of better and modern organizational resources. Previous studied done on performance globally and in Kenya did not focus on the mobile in Kenya. The objective was establishing whether human capital affected performance of mobile companies in Kenya. The null hypothesis was rejected with an implication that human capital had a significant effect on performance of mobile phone companies in Kenya. This could be as a result of human resource being unique and generally non inimitable.

5.2 Conclusions

Organizational performance is held to be the key consideration in all institutions. In this study, the researcher examined how human capital resources affected performance of mobile phone companies in Kenya, and the following conclusions were made, based on the findings of the study. Human capital was found to be statistically significant in influencing the firm's performance; therefore, managers should look for ways of motivating human resource in the organization for better performance. Companies should encourage more training and development of employees if they want to sustain performance.

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5.3 Recommendations for policy implication

These findings confirm our conceptual model and recommend a number of managerial implications. First, human capital, among other organizational resources, should be considered to be unique as one of the major contributors towards performance, since it was found to be positive and significant. Therefore, the human resource managers need to put more effort by investing in people through training and development to enhance knowledge and skills that will enable them identify factors that improve performance in the mobile phone companies in Kenya.

5.5 Recommendation for further research

The researcher recommends that a similar research should be conducted in other companies in Kenya. The current research can be duplicated but should use a longitudinal approach since performance is a process that occurs over time, implying that a longitudinal approach would have been appropriate.

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