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The Effect of Human Capital Management Drivers on Organizational Performance in Banking Industry in Ethiopia: The Case of Selected Commercial Banks in Addis Ababa.

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Submitted in Partial Fulfillment for the Requirement of Masters Degree in Business Administration

By:

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The Effect of Human Capital Management Drivers on Organizational Performance in Banking Industry in Ethiopia: The Case of Selected Commercial Banks in Addis Ababa

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Declaration

I, Gerba Abdisa, hereby declare that the thesis work entitled: **The Effect of Human Capital Management Drivers on Organizational Performance in Banking Industry in Ethiopia: The Case of Selected Commercial Banks in Addis Ababa,** submitted to Department of Management , School of Business and Economics ,Adama Science and Technology University in partial fulfillment of the Degree of Masters of Business Administration is my original work, and has not been printed, published and submitted as a research work, thesis, or publication in any form by any University in Ethiopia or abroad. Further, I confirm that all the sources of materials used for this study have been appropriately cited and acknowledged.

Gerba Abdissa

Signature_________________

Date_____________________

Thesis Approval Sheet

Student's Name**: Gerba Abdissa Gonfa**

Degree Sought: **Masters in Business Administration**

Thesis title: **The Effect of Human Capital Management Practices on Organizational Performance in Banking Industry in Ethiopia : The Case of Selected Commercial Banks in Addis Ababa.**

University: Adama Science and Technology University

We, the undersigned, recommended that the thesis stated above be accepted in partial fulfillment of the degree requirement.

Approved by thesis advisor

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Head of the Department	Signature	Date

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Acronyms

HCM: Human Capital Management

OP: Organizational Performance

LP: Leadership practices

WO: Workforce Optimization

KA: Knowledge Accessibility

LC: Learning Capacity

EE: Employee Engagement

Abstract

This research attempted to see the effect of human capital management practices, i.e., leadership practices (LP), work-force optimization (WOP), knowledge accessibility (KA), learning capacity (LC), employees engagement (EE) on organizational performance in the case of selected commercial banks in Addis Ababa. The study employed quantitative research approach with both descriptive and causal research types. Data were collected from 162 branches of six different commercial banks in Addis Ababa. The study was anchored on theory of resource-based view and human capital theory and adopted a case study research design with stratified random sampling. Descriptive and inferential statistics were used for data analysis. Multiple linear regressions was employed to analyze the effect of HCM practices on the performance of the commercial banks' branches and Pearson Bivariate correlation was applied to test the relationship among HCM derivers and performance of the commercial banks. The reliability of the constructs is validated by Cronbach's Alpha value. The regression results showed that firm's HCM has a significant positive impact on organizational performance. Furthermore, a significant positive relationship among HCM indicators was exhibited. Finally, the study concluded that it is possible to use human capital management drivers to benchmark organizational capabilities, identify human capital management strengths and weakness, and link improvements in specific human capital management practices with improvements in organizational performance and obtain sustainable competitive edge.

Key Words: human capital management, leadership practices, workforce optimization, knowledge accessibility, learning capacity, employee engagement, and organizational performance.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The concept of human capital is concerned with the added value people provide for organizations. It has been well said by Chatzkel (2004) that it is human capital that is the differentiator for organizations and the actual basis for competitive advantage. According to Bontis et al (1999), human capital represents the human factor in the organization; the combined intelligence, skills and expertise that gives the organization its distinctive character. The human elements of the organization are those that are capable of learning, changing, innovating and providing the creative thrust, which, if properly motivated, can ensure the long-term survival of an organization.

In current global market, competitors, regardless of the industry they belong to, compose companies. To develop a competitive advantage, it is important that firms truly leverage on the workforce as a competitive weapon. A strategy for improving workforce productivity to drive higher value for the firms has become an important focus. Firms seek to optimize their workforce through comprehensive human capital development programmes not only to achieve business goals but also for a long-term survival and sustainability (Hooi Lai Wan, 2007). To accomplish this undertaking, firms will need to invest resources to ensure that employees have the knowledge, skills, and competencies they need to work effectively in a rapidly changing and complex environment.

In response to the changes, most firms have embraced the notion of human capital as a good competitive advantage that will enhance higher performance. Human capital development becomes a part of an overall effort to achieve cost, effectiveness and firm performance. Hence, firms need to understand human capital that would enhance employee satisfaction and improve performance. Although there is a broad assumption that human capital has positive effect on firms' performance, the notion of performance for human capital remains largely untested (Marimuthu et al, 2009).

While there are many arguments in the literature in terms of factors contributing to performance of a firm, this paper looks at one of the factors i.e. human capital. Firm performance is a common issue in any organization especially in the new era of globalization, where competitiveness and innovativeness are norms that go with performance.

According to Baron and Armstrong (2007), human capital was defined as the combined intelligence, skills and expertise that gives the organization its distinctive character. This concept of Human Capital (HC) was initially formulated by Theodore Schultz in the early 1990 as a way of explaining the advantages of investing in education on a national scale (Afiouni, 2013) cited in Odhong and Were (2013). According to Omolo (2007), the concept of human capital has played an important role in the neoclassical analysis of labor markets. This is particularly with regard to the role it plays in wage determination. It has also come to dominate the economic analysis of the education. The emphasis on human capital in organizations reflects the view that market value depends less on tangible resources, but rather on intangible ones, particularly human resources (Kulvisaechana, 2006).

Human Capital Management is concerned with obtaining, analyzing and reporting on data that informs the direction of value adding; strategic investment and operational people management decisions at corporate level and at the level of frontline management (Baron et al., 2007) cited in Odhong et al., (2013). An organizations strength and weaknesses in human capital management can be assessed by monitoring performance of human capital manageent(HCM) drivers and general improvement or declines in organizations performance can be tied directly to improvements or decline in HCM practices (Bassi et al., 2007). HCM drivers act as a catalyst for an effective human resource management. The HCM drivers influence how the process is used to generate particular outcomes. Research has shown that approaches will differ between organizations depending on their planned outcomes (Baron et al., 2007). These HCM practices and drivers to be discussed in this study include leadership practices, employee engagement, knowledge accessibility, workforce optimization and learning capacity (Bassi et al., 2007). Hence, this paper attempts to look into the connection between these human capital management practices and performance of the selected commercial banks.

1.2 Statement of the Problem

Human Capital Management is a key business initiative in the present globalised market place. Without insight into workforce and talent needs, organizational performance suffers. To align with critical and emerging business goals and metrics, the banking industry has to ensure that Human Resource has a strong understanding of the organization's emerging and core business issues and key metrics and performance indicators to determine what Human Resource - related data will be most useful in aligning and driving business performance (Global Human Capital Trend, 2014).

According to Cedar (2012), organizations with workforce management applications have 33 per cent higher operating income growth. The organization’s success hence relies heavily on human capital management drivers, which includes leadership practices, employee engagement, knowledge accessibility, workforce optimization and learning capacity.

In today’s knowledge based-economy, brains have replaced brawn as the primary source of corporate wealth creation. As such, success or failure of any organization is dependent on the quality defined by knowledge, skills and abilities (KSA) and organizational fit of its employees - the human capital. Other things being equal, human capital is an important and often difficult to duplicate source of competitive advantage. Capelli and Singh (1992) proposed that competitive advantage arises from firm-specific valuable resources that are difficult to imitate. In the new economy, human capital is the foundation of value creation in an organization. According to Kaplan and Norton (1996), up to 85% of an organization’s value is based on intangible assets. This presents an interesting dilemma: the asset which is most important is the least understood, least prone to measurement and, hence, least susceptible to management.

Different studies have been conducted concerning the relationship between human resource management, strategic human resources management and human capital management and firm or organizational performance with different dimension and methodologies and different findings were reached. Nafula (2005) conducted a survey on human capital practices among sugar companies in Kenya, with the objective of determining the extent to which the sugar companies had implemented the HCM practices. Her findings were that 40.6% of the sugar companies practiced human capital management largely, 12.5% to a moderate extent and 46.9% did not practice human capital management. Oyinlola et al (2014) studied the impact of human capital development on organizational performance in the Nigerian banking sector, with a particular reference to the State of Osun. They found that significant relationship exists between human capital development and organizational performance in the banking industry and recommended that efforts should be geared towards improving human capital development and that banks' management should embrace effective leadership style to enable the expenditure incurred on human capital development impact effectively on banks' performance. Samad (2013) conducted a study assessing the contribution of Human Capital on business performance with an objective of examining the relationship between Human Capital and business performance. She found that human capital aspect of employees' competency and creativity emerged as the main factor that influenced business performance. Finally**,** Odhong et al (2014) conducted a case study research using a stratified random sampling on the effect of human capital management drivers on organizational performance (a case of Investment and Mortgage bank) with a main objective of establishing the effect of human capital drivers on organizational performance. Their research concluded that it is possible to use human capital management drivers to benchmark organizational capabilities, identify human capital management strengths and weakness, and link improvements in specific human capital management practices with improvements in organizational performance and obtain sustainable competitive edge.

All the above studies were conducted within a context of other countries and there is no study (to the extent of the researcher's knowledge and access), which is conducted in Ethiopia relating human capital management and organizational performance in general and particularly the human capital management drivers(leadership practices, workforce optimization, employee engagement, knowledge accessibility, and learning capacity) and organizational performance. Hence, the lack of empirical evidences in our country is what initiated the researcher to undertake this study.

1.3 Research Questions

This research tries to answer the following basic research questions:

- What is the Status of Human Capital Management practice in the selected Commercial Banks?
- What is the effect of human capital management drivers on organizational performance of Commercial banks in Addis Ababa?
- What are the key human capital management factors that determine the organizational performance of the selected commercial banks?

1.4 Objective of the Study

1.4.1 General objective

The general objective of this research is to assess the effect of Human Capital Management practices on organizational performance in selected Commercial Banks in Addis Ababa.

1.4.2 Specific objectives

Specifically, the objectives of this research were:

- To assess the Status of Human Capital Management Practice in the selected Commercial Banks in Addis Ababa.
- To investigate the joint (aggregate) effect of human capital management drivers on business performance of the selected Commercial Banks in Addis Ababa.
- To identify the key human capital management drivers that determine the organizational performance of the Selected Commercial Banks.

1.5 Significance of the Study

This research helps the commercial banks to understand the status of their practice of Human Capital Management in order to compare themselves to world standard and best practice companies and know where to emphasize in order to improve their Human Capital Management to gain sustainable competitive advantage. The work will also enlighten the bank managers on the relevance of human capital management in contributing immensely and impressively to the operational performance of banks and largely to the growth of Ethiopian banking industry. The research output could also enable the banks to realize the need to equip themselves with necessary expertise and skill that meet the present and future challenges. In addition, the paper could serve as a reference for future researchers who may wish to carry out further research work on effect of human capital management on the performance of financial institutions.

1.6 . Scope of the Study

This study tried to assess the effect of Human Capital Management on the performance of selected Commercial Banks in Addis Ababa. According to National Bank of Ethiopia (NBE), the major financial institutions operating in Ethiopia are banks, insurance companies and micro-finance institutions. The number of banks operating in the country reached 19 of which 16 are private, and the remaining are state-owned (NBE Annual Report,2013/14). The data collected and analyzed by this research do not apply to other financial institutions like insurance companies and micro-finance institutions and banks established after 2008 G.C**.**

1.7. Limitations of the Study

This study has its own limitations that need to be addressed in future research.

Its reliance on self-report questionnaire, which is vulnerable to possible distortions and response biases, is the first limitation of the study. In private sector organizations, where emphasis remains always on efficiency/productivity and job insecurity prevails pervasively, the respondents may go for impression management while responding to all items in the questionnaire. Therefore, participants' inclination for impression management may exaggerate the mean values for variables and thus strength of the relationship between the explanatory and dependent variables. Response in a socially desirable way is another shortcoming of self-report data. Under socially desired behavior, the respondents may avoid extreme options on the rating scales. Such behavior potentially contaminates the scales. Hence, mean values for variables and thus results may be inaccurate. For this study, data for all the measures were collected from the same source, that is branch managers, so any inefficiency/deficiency in that source may pollute all the measures and thus give rise to imprecise results for the study.

Another limitation is that the participants may respond to the questionnaire items even if they do not understand them. This can lead to the misquoted data for the research, which may take any extreme. Another limitation might be the assessment of performance, because it was measured only on perception.

CHAPTER TWO: LITERATURE REVIEW

2.1. Concept of Human Capital

The origin of human capital goes back to the emergence of classical economics in 1776, and thereafter developed a scientific theory (Fitzsimons, 1999). After the manifestation of that concept as a theory, Schultz (1961) recognized the human capital as one of important factors for a national economic growth in the modern economy. With the emergence and development of human capital as an academic field, some researchers expansively attempted to clarify how the human capital could contribute to socio-political development and freedom (Alexander, 1996; Grubb & Lazerson, 2004; Sen, 1999).

Schultz (1961) recognized the human capital as ‘something akin against the concept of property 'of labor force in the classical perspective, and conceptualized the productive capacity‘ of human beings is now vastly larger than all other forms of wealth taken. Most of researchers together’ have accepted that his thought viewing the capacity of human being is knowledge and skills embedded in an individual (Beach, 2009). Similar to his thought, a few researchers show that the human capital can be closely linked to knowledge, skills, education, and abilities (Garavan et al., 2001;Youndt et al., 2004). Rastogi (2002) conceptualizes the human capital as ‘knowledge, competency, attitude and behavior embedded. in an individual.

The concept of human capital is concerned with the added value people provide for organizations. It has been well said by Chatzkel (2004) that ‘it is human capital that is the differentiator for organizations and the actual basis for competitive advantage’. Human capital theory, as stated by Ehrenberg and Smith (1997), ‘conceptualizes workers as embodying a set of skills which can be “rented out” to employers. The knowledge and skills a worker has – which come from education and training, including the training that experience brings – generate a certain stock of productive capital.

Human capital is an important element of the intangible assets of an organization. The other intangible assets include copyright, customer relations, brands and company image. All these, but especially the expertise, imagination and creativity of employees, are as critical to business success as ‘hard’ assets. The significance of human assets explains why it is important to measure their value as a means of assessing how well they are used and of indicating what needs to be done to manage them even more effectively (Baron et al, 2007)

As described by Scarborough and Elias (2002): ‘The concept of human capital is most usefully viewed as a bridging concept – that is, it defines the link between HR practices and business performance in terms of assets rather than business processes.

Human capital consists of the knowledge, skills and abilities of the people employed in an organization. Schultz (1961) who elaborated his concept in 1981 as follows originated the term: ‘Consider all human abilities to be either innate or acquired. Attributes… which are valuable and can be augmented by appropriate investment will be human capital.’ According to Bontis et al (1999), human capital represents the human factor in the organization; the combined intelligence, skills and expertise that gives the organization its distinctive character. The human elements of the organization are those that are capable of learning, changing, innovating and providing the creative thrust which if properly motivated can ensure the long-term survival of the organization (Armstrong, 2009).

2.2. Theoretical review

Theories are formulated to explain, predict and help in understanding phenomenon and in many cases to challenge and extend existing knowledge within the limits of the critical bounding assumptions (David, 2009). For this research, the link between human capital and performance is based on the following theoretical strands.

2.2.1. Resource Based View

Wernerfelt (1984) articulated resource Based View (RBV) into a coherent theory. The theory states that the organizational resources and capabilities that are rare, valuable, non-substitutable, and imperfectly imitable form the basis for a firm's sustained competitive advantage. RBV suggests that the firm can secure a sustained competitive advantage through facilitating the development of competencies that are firm specific, produce complex social relationship; are embedded in a firm’s knowledge (Odhong et al., 2013). This theory recognizes human capital as the most valuable, non-substitutable and imperfectly imitable resource that a firm can successfully utilize to achieve organizational productivity and competitiveness. Resource-based theory is linked to human capital theory in that they both emphasize that investment in people adds to their value to the firm (Baron et al, 2007).

2.2.2. Human Capital Theory

The origin of human capital goes back to emergence of classical economics in (1776) and thereafter developed a scientific theory. The idea of investing in human capital was first developed by Adam Smith (1776), who argued in the Wealth of Nations that differences between the ways of working of individuals with different levels of education and training reflected differences in the returns necessary to defray the costs of acquiring those skills. Economists such as Elliot (1991) developed the theory of human capital. He is concerned with human capital in terms of the quality, not quantity, of the labor supply (Baron and Armstrong,2007). After the manifestation of that concept as a theory, Schultz (1961) recognized the human capital as one of the important factors of national economic growth in the modern economy (Dae-bong, 2009).

The theory argues that a person's formal education determines his or her earning power. Human capital theory holds that it is the key competences, skills, knowledge and abilities of the workforce that contributes to organizations competitive advantage. It focuses attention on resourcing, human resource development, and reward strategies and practices. According to Human Capital Theory, education is an investment because it is believed that it could potentially bestow private and social benefits. Human capital theorists believe that education and earning power are correlated, which means, theoretically, that the more education one has, the more one can earn, and that the skills, knowledge and abilities that education provides can be transferred into the work in terms of productivity (Dae-bong, 2009).

This paper takes the idea of both the Resource based view of the firm, because it believes that human capital is the most inimitable resource that can help the company to gain competitive advantage and the human capital theory which believes that it is the quality, the skill, knowledge and abilities of the human aspect that makes a difference on a competitive advantage than the quantity of HR.

2.3. Review of empirical Studies

A research study conducted in U.S, in 2010 by CFO Research Services reveals human capital issues as a key culprit in failed and subsequent financial woes. In this survey of Finance and HR executives, the researchers explored how organizations are handling human capital issues related to transactional activity. The results of the study suggested that HR offers unique value and guidance, particularly in relationship to managing and pricing human capital assets which can significantly contribute to successful pre-and post transformational events (Hewitt, 2010).

McMurrer developed a system that allows executives to assess HCM and to use those metrics both to predict organizational performance and to guide organizations' investments in people.

The framework is based on a core set of HCM drivers that fall into five major categories: leadership practices, employee engagement, knowledge accessibility, workforce optimization, and organizational learning capacity. By employing rigorously designed surveys to score a company on the range of HCM practices across the five categories, it is possible to benchmark organizational HCM capabilities, identify HCM strengths and weaknesses, and link improvements or backsliding in specific HCM practices with improvements or shortcomings in organizational performance (Bassi et al., 2007).

Bassi et al., (2008) cited in Jamal (2011) suggested that HCM indicators have relationship with outcome of the organization and enhancement in skill level of individual, improvement in human capital management and elimination of information deficiencies will be used as policy objectives to compete in knowledge era. Royal Bank of Scotland (RBS) Group, for example, is an acknowledged leader in the field of human capital management that has retained consistency of HCM reporting and measurement from HR that has a significant focus on business impact (http://www.accountingweb.co.uk).

Royal Bank of Scotland recognizes that if it is to deliver its goal of being ‘the world’s most admired bank’ and outperform others in the sector, the contribution and performance of its staff is the key differentiator. To achieve this objective, RBS places considerable importance on having HR policies in place that impact positively on staff. The Bank has been able to show that by improving employee engagement, measurable improvements in business performance and profit levels can result (Thomson, 2007).

Bassi et al., (2007) conducted a study on Human Capital and Organizational Performance: Next Generation Metrics as a Catalyst for change. The survey focused on the relationship between HCM metrics (for example, employee turnover rate) and subsequent organizational performance.

The survey was conducted across American Standard Organizations and results generalized. The empirical research revealed a core set of HCM drivers that predict performance are leadership practices, employee engagement, knowledge accessibility, workforce optimization and learning capacity.

A national study carried out in 2004 in the USA for the American Bankers Association by McBassi & Company explored the relationship between an organization's investment in human capital and its overall business performance.

A number of America’s leading banks participated and the study concluded that ‘‘those institutions that demonstrate the greatest commitment to human capital enjoy the greatest financial returns.’’ (Picket, 2005)

A further study of 750 large publicly traded firms found that organizations with the best human capital practices provide returns to shareholders that are three times greater than those companies with weak human capital practices (Pfau and Kay, 2002).

A common cause of corporate mal-function when reviewing current enterprise performance and developing a roadmap for the future is the failure to properly integrate the many diverse activities that combine to enable the organization to function,

Many serious problems are caused by busy executives looking at critical factors (including future plans) in isolation rather than reviewing them in the overall context of business effectiveness.

The integration of corporate strategies and human capital programs and initiatives is frequently canvassed in the boardrooms and executive suites but not very often implemented.

Extensive research has shown that the following categories of human capital management factors provides a core set of measures that senior management can use to increase the effectiveness of their investment in people and improve overall corporate performance(Bassi et al., 2007)

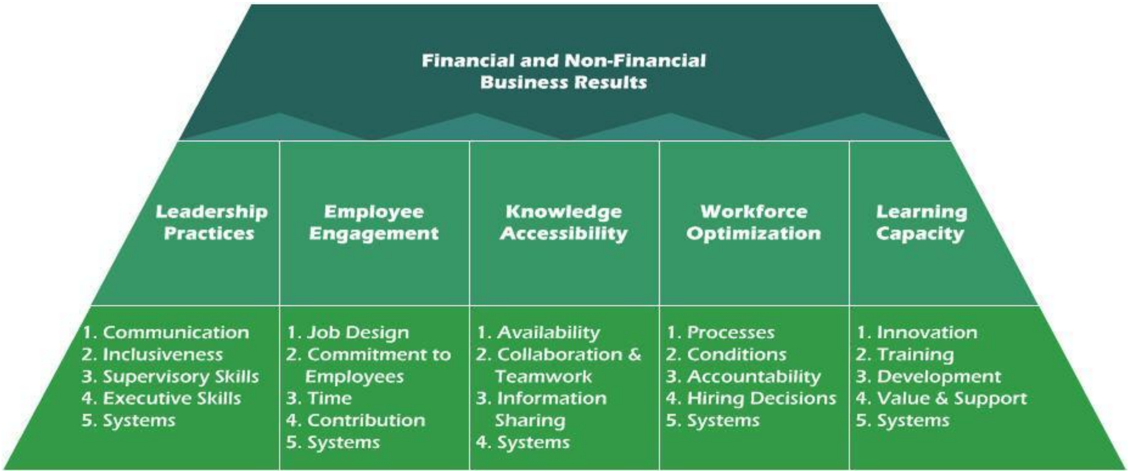
- **Leadership practices.** Managers' and leaders' communication, performance feedback, supervisory skills, demonstration of key organizational values, efforts and ability to instill confidence.
- **Employee engagement**. The organization's capacity to engage, retain, and optimize the value of its employees hinges on how well jobs are designed, how employees' time is used, and the commitment and support that is shown to employees.
- **Knowledge accessibility.** The extent of the organization's ''collaborativeness'' and its capacity for making knowledge and ideas widely available to employees.
- **Workforce optimization.** The organization's success in optimizing the performance of its workforce by establishing essential processes for getting work done, providing good working conditions, establishing accountability and making good hiring choices.
- **Learning capacity.** The organization's overall ability to learn, change, innovate and continually improve.

According to Picket(2005), by focusing on and measuring these key attributes, organizations are able to:

- ✓ link ''human capital'' to their business results;
- ✓ pin point with considerable precision the specific aspects of the work and learning environment that drive business results – both for good and bad;
- ✓ create road maps for the human agenda – the development and management of people
    - that will have the biggest impact on their business;
    - shift their focus from cost cutting to value creation; and
    - Become stronger organizations and better places to work

Literature reveals that human capital management is measured using different methodologies but still the scientists are not able to have a universal framework for the measurement of human capital management. For current study, human capital management practices are taken as independent (predictor) variable. The human capital management according to Bassi & McMurrer (2007) comprises of the five dimensions namely, leadership practices, knowledge accessibility, learning capacity, workforce optimization, employee engagement.

Fig. 2.1. McBassi Human Capital Capability Framework



Adopted from Bessi et.al: 2007

The framework adopted for the study has five indices and 23 factors of human capital management, being a comprehensive methodology to assess the level of maturity of the human capital management processes.

Nzuve et al., (2012) conducted a study on Human capital management practices adopted by the National Social Security Fund in Kanya. The main objective of the study was to determine the extent to which Kenya National Security Fund (NSSF) had adopted the HCM practices. The study used the case study design that was based on a target population of 98 management staff in the human resource and administration department. Both content and quantitative analysis were used to analyze data. The researcher found that NSSF had implemented HCM practices but to a negligible extent. Some of HCM practices at NSSF includes: enhancing the organization's capacity through staff training and development and setting of clear performance standards.

Muhamed et al (2013) conducted a study to find the impact of human capital on firm performance with mediating effects of employees' satisfaction in the telecom sector of Pakistan. After all the data analysis and calculation it is found that there is a strong relation of human capital to firm performance and also found that employees satisfaction has a strong mediating role between both variables. The paper used quantitative data to conduct the research and test the various hypothesis. The results indicated the evidence that there is a significantly strong link between human capital investment and organization performance. Furthermore, the study indicates that the variable of employees satisfaction plays a significant role of a mediator between the two variables. The higher the human capital the better the firm performance therefore, it is concluded as a result from the study that companies should strive to develop and train their employees to be able to perform better so it can attain its goals in an efficient way with a more rapid pace.

From the research, it was recommended that organizations should pursue to invest in training and education of their employees, which will help them not only maintain their core competences and enhance their productivity and level of performance.

Nzuve and Bundi (2012) conducted a study to determine the relationship between human capital management practices and performance of Commercial Banks in Kenya. The researchers used a cross sectional survey design as well as a correlation research. The study concluded that most commercial banks adopt human capital management practices to an average degree. The study further concluded that human capital management practices generally have a positive influence on performance as measured by both turnover growth and return on assets.

Olufemi (2009) conducted a study on human capital development practices and organizational effectiveness: A focus on the contemporary Nigerian Banking Industry. The main purpose of the study was to gain a better understanding of the theoretical and empirical relationship between Human Capital Development (HCD) practices and some dimension of organizational effectiveness of Nigerian Banks particularly after the banking sector reforms of June 2004.

Responses from survey were analyzed using descriptive statistics and Pearson product movement correlation. The study found that involvement in HCD practices are found to correlate positively with organizational effectiveness.

2.4. Conceptual Framework

Conceptual framework is a pictorial representation where, descriptive categories are systematically placed in a broad structure of explicit propositions, statements or relationships between two or more empirical properties to be accepted or rejected (Were, 2013).

In figure 2.2. below, the organizational performance is the dependent variable and the leadership practices, employee engagement, knowledge accessibility, workforce optimization and learning capacity are the independent (explanatory) variables.

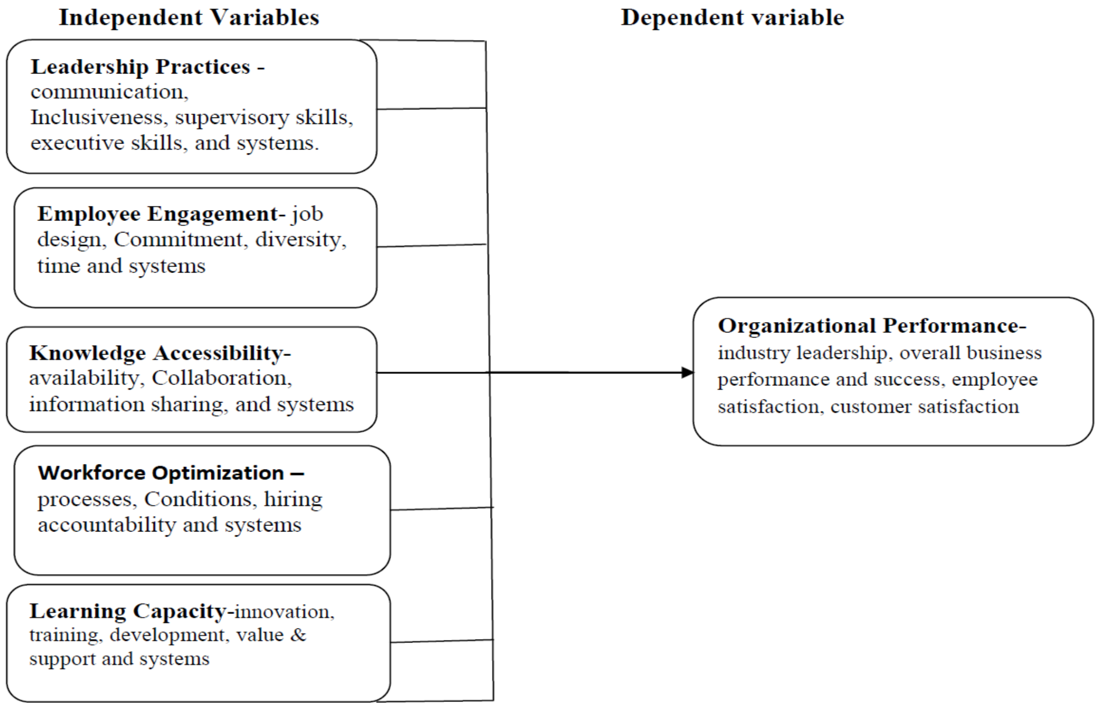


Figure. 1: Conceptual Framework (Adopted from Bessie et al, 2007)

Fig. 2.2. Conceptual framework of the study (adopted from Bessie, et al, 2007)

Operational Definitions

According to Les Pickett, (2005), the human capital management drivers identified by Laurie Bassi and Daniel McMurrer (Bassi et al,2008) which form the conceptual framework of this research are elaborated as follows:

Leadership Practices

Leadership practices include managers' and leaders' communications and inclusiveness, performance feedback, supervisory skills, demonstration of key organizational values, and ability to instill confidence. Leadership is the foundation for ensuring that human capital is developed, sustained, and deployed successfully. Leadership practices thus lay the foundation for the achievement of all organizational goals.

Many researchers have concluded that this category is the most important driver of an organization's ability to retain its top performing people. This matters because low scores in leadership practices are associated with difficulties in motivating employees and problems in retaining top performing employees.

Employee engagement

Employee engagement is an organization's capacity to engage, retain, and optimize the value of its employees. It hinges on how well jobs are designed, how employees' time is used, and the commitment shown to employees. The most successful organizations are those proactively managing talent retention by creating desirable work environments, including designing jobs purposefully, ensuring that employees' time is well used, recognizing and valuing employees and their work, and providing opportunities for employee advancement. Low scores in employee engagement reflect an environment where employees are unlikely to contribute their best efforts, causing problems in the important area of customer satisfaction and loyalty.

Knowledge accessibility

Knowledge accessibility is the extent of an organization's ‘‘collaborativeness’’ and its capacity for making knowledge and ideas widely available to employees. Organizations that capture, apply, and re-use knowledge and best practices among departments and divisions and have successful, collaborative team structures are best able to leverage their knowledge and talent for business results.

Low scores in knowledge accessibility are associated with redundancies within and across departments and reflect factors that cause difficulties in getting cross-functional work completed in a timely and effective manner.

Workforce optimization

Workforce optimization is the organization's success in optimizing the performance of its employees by establishing essential processes for getting work done, providing good working conditions, establishing accountability, and making good hiring choices. Since human capital represents a major portion of most organizations' total operating costs, the quality of the practices, systems, and processes for ensuring that employees are effective is a foundational determinant of business results. Low scores in workforce optimization reflect inefficiencies and unnecessarily high costs.

Learning capacity

Learning capacity is an organization's overall ability to learn and innovate – and ultimately, to achieve a continual level of improvement. Hence, training, development, and innovation must be valued and supported in order for an organization to have the capacity to respond to changing conditions and consistently achieve strategic goals. Low scores in learning capacity reflect an organization that has failed to take the steps necessary to enable learning and innovation. Such organizations are poorly equipped to respond effectively to constantly (and inevitably) changing conditions in the market and the economy.

Organizational Performance

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). Performance is measured in terms of Industry leadership, overall business performance and success, employee satisfaction, customer satisfaction Mobilization of Deposits, Loans & Advances International Banking Services Branch Expansion.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Research Design

In order to address the research questions and achieve the objectives of this research, a quantitative research approach was adopted and a descriptive and causal research types were employed.

The major purpose of descriptive research is description of the state of affairs, as it exists at present or it helps to describe the characteristics of a phenomenon. The methods of research utilized in descriptive research are survey methods of all kinds, including comparative and correlational methods (Kothari, 2004). According to Zikmund (2005), the major purpose of descriptive research is to describe characteristics of objects, people, groups, organizations, or environments. In this research descriptive research was used to assess the status of human capital management in the selected commercial banks and causal research was used in order to see the effect of human capital management drivers on the performance of the commercial banks.

3.2. Type of data

Primary data on the Human Capital Management derivers (i.e. Leadership practices, employee engagement, workforce optimization, Knowledge accessibility and learning capacity) and organizational performance (operational Performance) of the selected commercial banks assessed on a likert scale was collected.

3.3. Sources of Data

Data for this study was obtained from managers who have been working as branch managers of the Commercial banks because these were managers who were expected to have a good knowledge on the topic.

3.4. Population and Sampling Frame

According to the report of National Bank of Ethiopia (2013/14), there are 19 Banks in the country (3 public and 16 private banks). This report also indicated that these banks have 2208 branches all over the country (1455 regional branch networks and 753 branches in Addis Ababa). In this study, however, commercial banks established after 2008G.C were excluded because it was assumed that they lack adequate experience and may not provide adequate input to this research. Excluding the banks established after 2008 G. C and limiting the scope of the research to the Addis Ababa branches, the sampling frame became 449 (the branches in Addis Ababa) to draw the appropriate sample size for the purpose of this research.

3.5. Sampling technique and sample size

From those banks established before 2008, this research considered only six banks namely: Commercial Bank of Ethiopia, United Bank, Awash International Bank, Dashen Bank, Cooperative Bank of Oromia, and Abyssinia Bank. These six Commercial Banks have 449 branches in Addis Ababa and this makes a sampling frame of the study to draw the appropriate sample size for the purpose of this research. According to the sample size determination table developed by Sekranan (2010), the appropriate sample size for population of 449 is 208.

In order to draw respondents from the population, proportionate stratified random sampling technique was used to give proportional representation to all branch managers of the selected banks which formed the sampling frame of the study.

Stratified sampling was preferred because it reduces random sampling errors, groups can be adequately represented when strata are combined, and stratified sample ensures that the sample can accurately reflect the population (Zikumund, 2005). According to Kothari (2004) proportional allocation under which the sizes of the samples from the different strata are kept proportional to the sizes of the strata is given by n* Pi. Where, Pi represents the proportion of population included in stratum i, and n represents the total sample size.

$$\text{sample size from a stratum} = \frac{\text{size of the stratum}}{\text{total population}} * \text{ sample size}$$

S/n	Stratum(bank)	Number of branch in AA	Sample representation in the research
1	Commercial Bank Of Ethiopia	156	72
2	Awash International Bank	90	42
3	Dashen Bank	73	34
4	Cooperative Bank Of Oromia	21	10
5	United Bank	55	25
6	Abyssinia Bank	54	25
	TOTAL	**449**	**208**

3.6. Data Collection tools

A standardized likert scale type questionnaire adopted from Bassi (2008) was used to collect primary data where the scales range from 1 (strongly disagree) to 5(strongly agree) even though, in survey researches, data can be collected through questionnaires, interview, document analysis, and observation (Kothari, 2004). Questionnaire is preferred to the other tools because it is simple and quick to administer and it helps to collect data from relatively large number of respondents.

3.7. Validity and reliability

Since a standardized questionnaire whose validity was tested was adopted from Bassi(2007) was used to collect the primary data the researcher did not go for validity testing in this study.
To measure the internal consistency and reliability Chronbach's alpha was applied. Cronbach's alpha reliability coefficient normally ranges between 0 and 1. However, there is actually no lower limit to the coefficient. The closer Cronbach's alpha coefficient is to 1.0 the greater the internal consistency of the items in the scale. George and Mallery (2003) provided the following

rules of thumb:“ >= .9 – Excellent, >= .8 – Good, >= .7 – Acceptable, >= .6 – Questionable, >= .5 – Poor, and <= .5 – Unacceptable.” A value of .65 or more was considered sufficient to estimate the reliability of a scale, though reliabilities as high as .70 or more have been recommended (Bakeman & Gottman, 1986).

3.8. Method of data analysis

The data collected was checked for completeness and coded into the statistical package for social sciences (SPSS) version 20.0. In order to establish the HCM practices adopted by the banks descriptive statistics especially, the mean scores and standard deviations was calculated for each item in the questionnaires to make a comparison of the status of banks with world standard and the best practice companies. In order to see the effect of Human Capital management on Performance, inferential statistics particularly correlation and multiple linear regression analysis were employed.

The proposed Multiple regression model is indicated below:

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta x_4 + \beta_5 x_5$$

Where:

Y= represents Organizational Performance

x_1= Leadership Practices

x_2 = Workforce Optimization

x_3 = Knowledge Accessibility

x_4 = Learning Capacity

x_5 = Employee Engagement

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. Introduction

This Chapter is concerned with the presentation, analysis and interpretation of the data collected through questionnaire from the commercial banks participated in the study. A total of 208 questionnaires to be rated on a Likert scale were distributed to six different Commercial banks (Commercial Bank of Ethiopia, Awash International Bank, Dashen Bank, Cooperative Bank of Oromia, Abysinia Bank and Unted(Hibret) Bank with a randomly selected 208 branches operating in the Capital City, Addis Ababa. From the 208 questionnaires distributed, 162 (77.88% were correctly filled and returned for analysis. Hence, the response rate was 77.88%. A questionnaire with missing value was discarded from the analysis so that no missing value is reported.

The details relevant to the statistical analysis of the research data is presented in this chapter.

The statistical procedures applied included alpha reliabilities, Pearson's rank correlation, and Multiple Linear Regression analysis. Cronbach's alpha was computed for the reliabilities and internal consistency of the scales. Pearson's correlation coefficient was calculated to assess the relationship between HCM indicators (Leadership Practices, Workforce optimization, Knowledge accessibility, Learning capacity and Employee engagement) and organizational performance. Prediction about the value of dependent variable i.e. "Organizational performance" on the basis of independent variable HCM was assessed by Multiple Linear Regression analysis.

The results of the study are shown with the help of tables that present the descriptive statistics, alpha values, R-values, p-values, and multiple linear regression tables for the tests applied. This study employed a .05 level of significance to draw most of the conclusions. Therefore, a p-value less than .05 indicates the presence of a significant relationship between the two variables.

Descriptive statistics showing the minimum, maximum, mean, and standard deviation values was calculated for the variables in order to see the status of human capital management in the selected commercial banks so that the scores can be compared with the global average and the best practice companies as identified by Macbassi and company (Picket,2005).

Table4.1: Planned sample size, actual sample size and response rate

Bank	Number of branches in AA	Sample representation in the research	Actual Sample	Response rate
CBE	156	72	57	79..2%
AIB	90	42	37	88.1%
DB	73	34	30	88.2%
CBO	21	10	6	60%
U B	55	25	16	64%
AB	54	25	16	64%
TOTAL	**449**	**208**	**162**	**77.88%**

4.2. Internal Consistency Reliabilities

The Alpha reliability coefficients were calculated to check the internal reliabilities of the measures (subcomponents) employed and are presented in the table below:

Table 4.2. Alpha Reliabilities of the test Constructs

Variable names	**Number of Items**	**Cronbach's Alpha**
Human Capital Measures		
Leadership practices	10	.902
Workforce Optimization	16	.883
Knowledge accessibility	9	.858
Learning Capacity	9	.916
Employee engagement	12	.889
Organizational Performance	7	.850

Source: Field Data

The table (table 4.2.) shows that, moderate to high internal reliability coefficients were observed for all the scales used, and the alpha values range from 0.850 (Organizational Performance) to 0.916 (Learning Capacity) that are quite acceptable in social sciences research. Cronbach's alpha values ranging from .64 to .85 for the 20 factor subgroups, with a mean alpha value of .77 were reported by Bassi & McMurrer(2008) ; a Cronbach's alpha value ranging from 0.69 to 0.86 with a mean value of 0.81were reported by Jemal (2011) and finally, Odhong(2014) reported a reliability coefficient between 0.842 and 0.933.

4.3. Demographic Characteristics of the Respondents

Table 4.3.1: Demographic Characteristics of the Respondents

Variable	Sub-variable	Frequency	Percent	Valid percent	Cumulative percent
Sex	Male	124	76.5	76.5	76.5
	Female	38	23.5	23.5	100.0
	Total	**162**	**100**	**100**	
Age in years	Less than 30	84	51.9	51.9	51.9
	31-65	78	48.1	48.1	100
	Total	**162**	**100.0**	**100.0**	
Educational Level	Diploma	21	13.0	13.0	13.0
	Degree	113	69.8	69.8	82.7
	Masters	28	17.3	17.3	100.0
	Total	**100**	**100.0**	**100.0**	
Service years (in years)	Less than 5	82	50.6	50.6	50.6
	6-10	63	38.9	38.9	89.5
	11-20	12	7.4	7.4	96.9
	Greater than 20	5	3.1	3.1	100.0
	Total	**162**	**100.0**	**100.0**	

Table 4.3.1 presents the demographic characteristics of the respondents. The first item of the table presents the sex distribution of the respondents. According to the table, the majority (76.5%) of the respondents is Male and 23.5% of the respondents are Female. The second item of the table indicates the age of the respondents and accordingly the majority of the respondents

84(51.9%) are in the age range of less than 30 years, and 78 (48.1%) are between 30 and 65 years of age.

The third item table 4.3.1.is about the educational level of the respondents. Majority of the respondents 113(69.8%) are first-degree holders, 28(17.3%) are Masters Degree holders and 21(13%) of the respondents are diploma holders.

The last item of table 4.3.1 is the respondents' service year. And we can read that majority of the respondents 82 (50.6%) have less than 5 years of bank service experience, 63 (38.9%) of the respondents have a bank work experience of 6 to 10 years, and only 17(10.5%) of the respondents have more than 10 years of bank service experience.

4.4. The Status of Human Capital Management in the Selected Commercial Banks

The following table (table 4.4.) presents the descriptive statistics of the five human capital management practices (predictors) and the dependant variable (organizational Performance) of the selected commercial banks in this study. The descriptive statistics is presented for all the measures used in the study and the table shows the minimum, maximum, mean, and standard deviation values calculated for the actual sample size of 162 participants.

Table 4.4. Descriptive Statistics

	N	Minimum	Maximum	Mean	SD
Leadership Practices	162	1.50	5.00	3.5877	.73635
Workforce Optimization	162	1.31	5.00	3.3677	.68601
Knowledge Accessibility	162	1.56	4.89	3.5260	.70430
Learning Capacity	162	1.00	4.89	3.3409	.83691
Employee Engagement	162	1.67	4.83	3.3858	.66303
Organizational Performance	162	1.00	5.00	3.6235	.81915
Human Capital Management	**162**	**1.64**	**4.90**	**3.4416**	**.66077**
Valid N (listwise)	162				

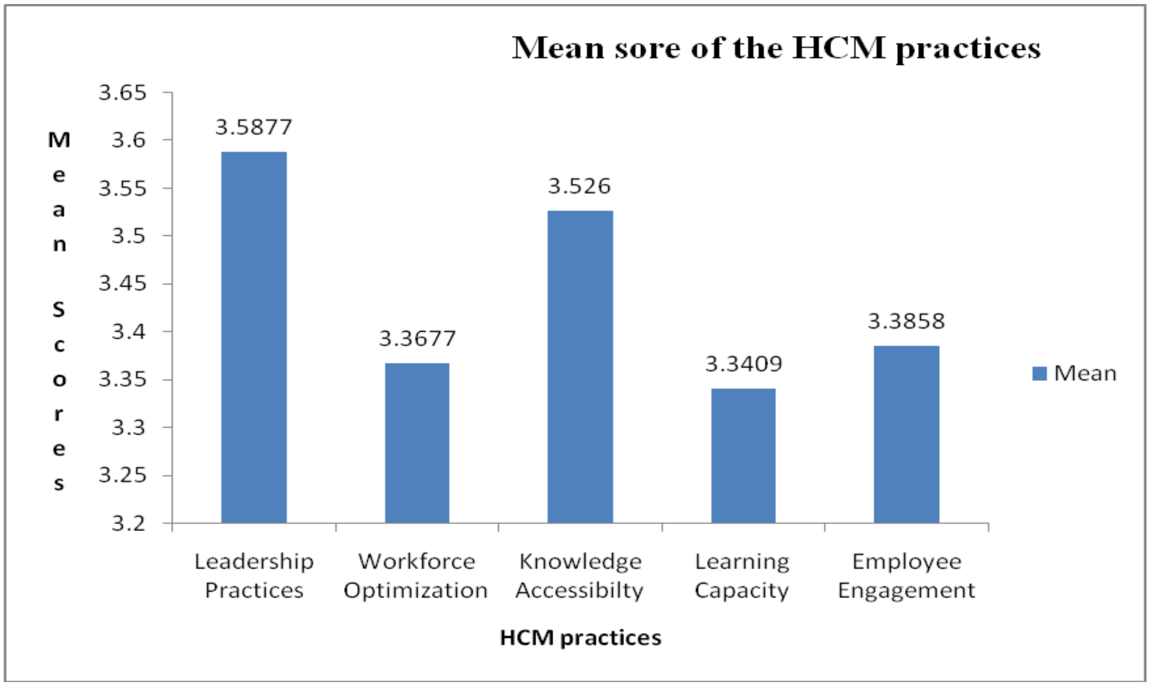


Fig.4.1 Mean Score of overall HCM practices

The status of human capital management can be defined by the mean performance score of the organizations on each of the predictor variables (Leadership practices, Workforce Optimization, Knowledge Accessibility, Learning Capacity, and Employee Engagement) in the study. Organizations' strengths and weaknesses in human capital management (HCM) can be assessed by monitoring the performance of each of HCM practices that fall within those five broad HCM driver categories. In general, improvements or decline in organizational performance can be tied directly to improvements or decline in HCM practices (Bassi, et,al 2007). According to Picket (2005), the organization's mean score in each of the drivers can assess the performance of an organization in these five HCM practices. In addition, according to Picket (2005), on a scale of one (the lowest) to five (the highest), Australian organizations scored 3.1 in overall human capital management. The global average was 3.3, while best practice organizations scored 4.1.

From table 4.4 above we can see that the human capital management performance score of the commercial banks in this study is 3.4, which is better than both the score of the Australian companies (3.1) and the global average (3.3) but below the best practice organizations (4.1).

Within the specific categories, the performance scores in each of the HCM practice results for Australian companies, the global average and the best practice companies are as follows:

Leadership Practices

These include managers' and leaders' communications and inclusiveness, performance feedback, supervisory skills, demonstration of key organizational values, and ability to instill confidence. On this dimension, the score of Australian Organizations was 3.1, while the global average was 3.3 and best practice companies scored 4.3.

From table 4.4 this score for the commercial banks participated on this study is 3.6 which is better than the score of the Australian companies (3.1) and the global average (3.3) but less than that of the best practice companies (4.3)

Fig.4.2. Leadership Practices overall mean score

Workforce Optimization

This is the organization's success in optimizing the performance of its employees. It does so by establishing essential processes for getting work done, providing good working conditions, establishing accountability, and making good hiring choices. Since human capital represents a major portion of most organizations' total operating costs, the quality of the practices, systems and processes for ensuring that employees are effective is a foundational determinant of business results.

On a scale of one (the lowest) to five (the highest), Australian organizations scored 3.4 in workforce optimization, while the global average is 3.5 and best practice companies score an average of 4.4.

From table 4.4 above the score of the commercial banks participated on this study indicates that the performance score in optimizing the workforce is 3.4. This score is in tandem with the Australian companies (3.4) but below the global average of 3.5 and the best practice companies where the score is 4.4.

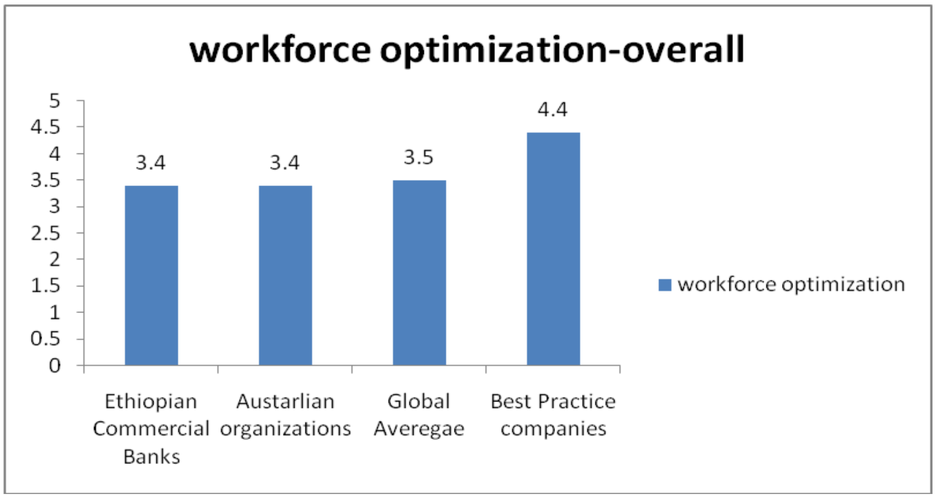


Fig. 4.3. Workforce Optimization overall mean Score

Knowledge Accessibility

This is the extent of an organization's 'collaborativeness' and its capacity for making knowledge and ideas widely available to employees. Organizations that capture, apply and re-use knowledge and best practices among departments and divisions, and have successful, collaborative team structures, are best able to leverage their knowledge and talent for business results.

On a scale of one (the lowest) to five (the highest), Australian organizations scored 2.9 in knowledge Accessibility, while the global average is 3.4 and best practice companies score an average of 4.6.

Table 4.4, above shows that the score of knowledge accessibility for the selected Commercial banks participated in this study (3.5) is better than that of the Australian organizations (2.9) and the overall global average (3.4) and far below that of the best practice companies (4.6).

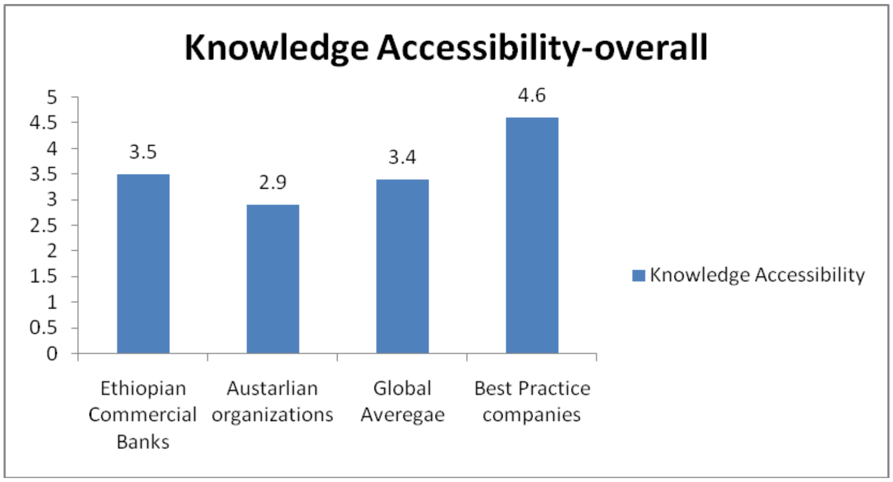


Fig. 4.4. Knowledge Accessibility overall mean scores

Learning Capacity

This is an organization's overall ability to learn and innovate – and ultimately, to achieve a continual level of improvement. Hence, training, development and innovation must be valued and supported in order for an organization to have the capacity to respond to changing conditions and consistently achieve strategic goals.

On this dimension, on a scale of one (the lowest) to five (the highest), Australian organizations scored 3.1 while the global average is 3.2 and best practice companies score an average of 4.2.

From table 4.4, above the Commercial banks participated on this study has achieved the a score of 3.3 on learning capacity which is still better than that of the Australian organizations(3.1) and the global average(3.2) while it is below the best practice companies (4.2).

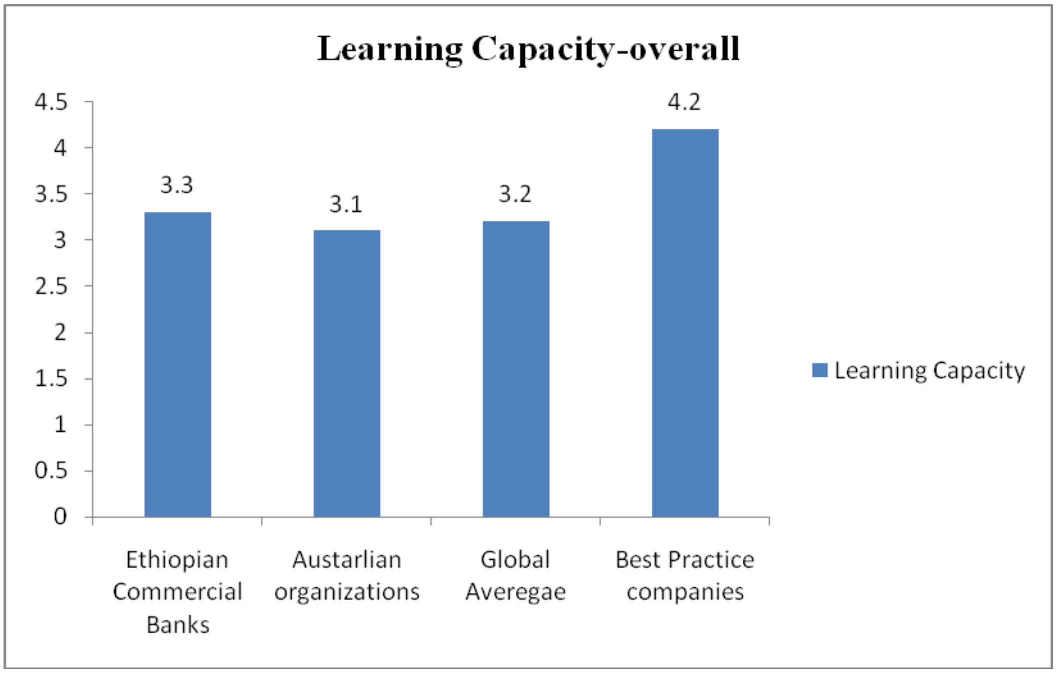


Fig. 4.5. Learning Capacity overall mean score

Employee Engagement

This is an organization's capacity to engage, retain, and optimize the value of its employees. It hinges on how well jobs are designed, how employees' time is used, and the commitment shown to employees.

The most successful organizations are those proactively managing talent retention by creating desirable work environments, including designing jobs purposefully, ensuring that employees' time is well used, recognizing and valuing employees and their work, and providing opportunities for employee advancement.

On a scale of one (the lowest) to five (the highest), Australian organizations scored 3.0 in Employee Engagement, while the global average is 3.2 and best practice companies score an average of 4.2.

From table 4.4.indicates that the performance score on employee engagement for the Commercial Banks involved in this research is 3.4 which is better than that of the Australian Companies and the global overall average but below the best practice companies.

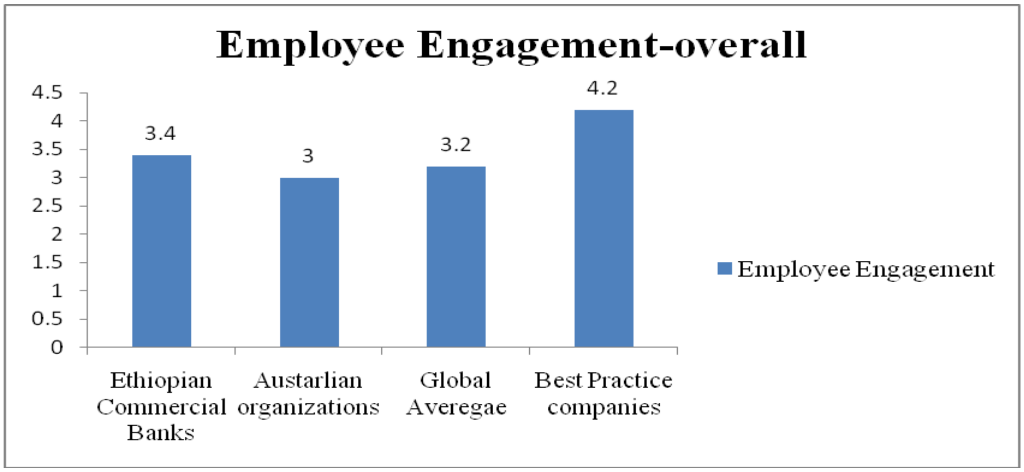


Fig. 4.6: Employee engagement overall mean score

4.5. Correlation between Human Capital Management and Organizational Performance

4.5.1. Correlation between Overall HCM and Organizational Performance

Pearson correlation test was applied to investigate whether HCM practices of the firm is related with organizational performance. The result of the study upholds that Human capital management Practice is positively correlated with organizational performance. The table 4.5.1 indicates that there is significant positive correlation between organizational HCM and organizational performance ($p<.01$). Organizational scores on HCM exhibited a positive association ($r =.67$) with their organizational performance.

Table 4.5.1: Correlation of Human Capital Management and Organizational Performance

		Organizational Performance	Human Capital Management
Organizational Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	162	
Human Capital Management	Pearson Correlation	.670**	1
	Sig. (2-tailed)	.000	
	N	162	162

**. Correlation is significant at the 0.01 level (2-tailed).

Table 4.5.2: **Linear Regression of Human Capital Management on organizational performance**

Model		Coefficients Un standardized Coefficients		Standardized Coefficients	t	Sig.	R	R^2
		B	Std. Error	Beta				
1	(Constant)	-3.711	.294		-12.616	.000		
	HCM	**1.078**	**.084**	**.713**	**12.845**	**.000**	**0.713**	**0.508**

a. Dependent Variable: Organizational Performance Fact

Table 4.5.2, above indicates the linear regression of HCM on organizational Performance. The slope of the model (the coefficient of the Constant) is negative (-3.711) but the regression coefficient of the overall human capital management is positive (β=1.078) and is statistically significant at 1% ($p<0.01$). This indicates that human capital management has a significant positive influence on organizational performance. The coefficient of determination for this regression model (R^2) is calculated to be 0.508. This tells us that Human capital management has the capacity to explain 50.8% of the variations in organizational performance.

This result upholds the findings of Olufemi(2009) who conducted a study on the relationship between human capital development and organizational effectiveness in the Nigerian banking sector. The finding stated that involvements in human capital development practices are positively correlated with organizational effectiveness. The result is also in tandem with Mohammed et al (2013) who found that there is strong correlation between human capital management and firm performance. Furthermore, the findings of this study support the findings of Bassi et al (2007) which found that those institutions that demonstrated the greatest commitment to human capital enjoyed the greatest financial returns.

The finding also supports the research results of Nadoushan, Saeedi, Amidzadeh, & Hosseini (2013), which investigated the relationship between human capital management practices and employees‘performance and found a positive and meaningful relation between human capital and its dimension with employee performance. In their study, they measured human capital using the indices like employees 'creativity, employees 'competence and employees 'attitude.

Furthermore, the result is also consistent with the findings of Jamal (2011) who reported a significant regression coefficient of (β=0.01 and 0.045, $P<0.01$) for both executives and employees data set respectively.

4.5.2. Correlation between HCM indictors and organizational Performance

In order to achieve the second objective of the study (whether there is a any relationship between human capital management practices and organizational performance), Pearson Correlation coefficient was applied and presented in table 4.5.3 below. The table portrays that there is a significant positive relationship between the HCM indicators and organizational Performance. Specifically, there is a moderate significant positive correlation between Leadership Practices and organizational Performance (r =0.607, $p<0.01$). Similarly workforce optimization and organizational performance are significantly positively correlated (r =0.577, $P<0.01$). Furthermore, the table indicates that Knowledge accessibility and Organizational performance are moderately significantly correlated (r=0.6, $p<0.01$). Moreover, there is a moderate significant positive correlation between organizational performance and Learning Capacity(r=0.641, $P<0.01$). Finally, the table shows significant positive relationship between employees engagement and Organizational Performance(r=0.62, $p<0.01$).

Table 4.5.3. Correlations between HCM indicators and Organizational Performance

		Leadership Practices	Workforce Optimization	Knowledge Accessibility	Learning Capacity	Employee Engagement	Organizational Performance
OP	Pearson Correlation	.607**	.577**	.600**	.641**	.620**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	162	162	162	162	162	162

**. Correlation is significant at the 0.01 level (2-tailed).

4.6. Testing for the Model Assumptions

Before embarking on the use of the multiple regression analysis an effort was made to check if the model could be used for this analysis.

4.6.1. Multicollinearity Test

Multicollinearity in regression analysis refers to how strongly interrelated the independent (predictor) variables in a model are or it is a situation in which two or more explanatory variables in a regression model are highly linearly related. When multicollinearity is too high, the individual parameter estimates become difficult to interpret. There is a perfect multicollinearity if the correlation between two independent variables is equal to 1 or -1. Cooper and Schindler (2008) recommend a correlation value of 0.8 or greater to denote multicollinearity between two variables. Most regression programs can compute variance inflation factors (VIF) for each variable. acccording to Zikmund(2010) as a rule of thumb, VIF above 5.0 suggests problems with multicollinearity.

Before the analysis, a multicollinearity diagnostic test was conducted to ensure that the data was suitable for Multiple Linear regression analysis. From Table 4.6.1, none of the correlation values was 0.8 or greater, rendering the variables suitable for the multiple linear regression analysis. With the same token, from table 4.7, we can see that the VIF values of the collinearity statistics are all below 5 indicating that there is no multicollinearity problem in the data

4.6.2. Normality

The second assumption for linear regression model is normality of the data. To test the normality of the data Kolmogorov–Smirnov test and Shapiro–Wilk test was used. According to Andy Field (2009), these two tests compare the scores in the sample to a normally distributed set of scores with the same mean and standard deviation. If the test is non-significant ($p > .05$) it tells us that the distribution of the sample is not significantly different from a normal distribution (i.e. it is probably normal). If, however, the test is significant ($p < .05$) then the distribution in question is significantly different from a normal distribution (i.e. it is non-normal).

For this research the all the p- v are insignificant testifying that the data is approximately normal.

4.6.3. Quantitative (Continuous) variable

The other assumption to use a linear regression is when the variable is continuous. to achieve this principal component analysis was used and factor score was calculated for all the predictors and the dependant variables and regression was run using the factor scores

4.6.4. Examining the model *F*-test

For multiple linear regression to be applied, the models F-test was checked for significance and it is significant ($F=25.15, p<0.01$). According to Zikmund (2010), if the F-test result is not significant, the model should be dismissed and there is no need to proceed to further steps.

Tbale: 4.6.1. Correlation Matrix for main effects of Linear Regression

		LP	WO	KA	LC	EE
LP	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	162				
WO	Pearson Correlation	.590**	1			
	Sig. (2-tailed)	.000				
	N	162	162			
KA	Pearson Correlation	.625**	.680**	1		
	Sig. (2-tailed)	.000	.000			
	N	162	162	162		
LC	Pearson Correlation	.716**	.627**	.707**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	162	162	162	162	
EE	Pearson Correlation	.672**	.629**	.616**	.686**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	162	162	162	162	162

****. Correlation is significant at the 0.01 level (2-tailed).**

4.7. Joint effect of Human Capital Management on Organizational Performance

Table 4.7 below gives a summary of the regression results on the effect of HCM Practices (drivers) on organizational performance. The results presented in table 4.7 shows that leadership practices, employee engagement, knowledge accessibility, workforce optimization and learning capacity jointly determine organizational performance at the selected commercial banks of this study. The F-statistic, which is a measure of joint determination, has an estimated value of 25.150 and a probability statistic of 0.00 (Prob > F=0.00). This means that the five independent variables (predictors) are jointly important in explaining the changes in organizational performance at the Commercial banks. The R squared value 0.446 means that the model explains 44.6 percent of the changes in the organizational performance at the Commercial Banks.

Table 4.7: Regression result of effect of HCM practices on Organizational Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.988	.267		3.69	.000		
	Leadership Practices	.165	.087	.176	1.89	.040	.410	2.442
	Workforce Optimization	.244	.094	.230	2.59	.010	.453	2.208
	Knowledge Accessibility	.088	.098	.085	.899	.037	.396	2.523
	Learning Capacity	.213	.090	.241	2.37	.019	.343	2.916
	Employee Engagement	.051	.106	.044	.485	.029	.421	2.375

R=0.668, R^2=0.446, Adjusted R^2 = 0.429, Std.error of the estimate =0.61922

F-statistic=25.150, p=0.000

a. Dependent Variable: Organizational Performance

$$Y = \beta_{0} + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta x_4 + \beta_5 x_5$$

The model for the research becomes,

$$Y = 0.988 + 0.165x_1 + 0.244x_2 + 0.088x_3 + 0.213x_4 + 0.051x_5$$

Where:

Y= represents Organizational Performance

x_1= Leadership Practices

x_2 = Workforce Optimization

x_3 = Knowledge Accessibility

x_4 = Learning Capacity

x_5 = Employee Engagement

4.8. The Key Human Capital Management Drivers in Relation to Organizational Performance of the Banks

4.8.1. Effect of Leadership Practices on Organizational Performance of the banks

Leadership practices include managers' and leaders' communications and inclusiveness, performance feedback, supervisory skills, demonstration of key organizational values, and ability to instill confidence. Leadership is the foundation for ensuring that human capital is developed, sustained, and deployed successfully. Leadership practices thus lay the foundation for the achievement of all organizational goals.

The regression result presented in table 4.7, shows that leadership practices has a positive relationship with organizational performance. The Beta coefficient of this variable is 0.165 with a t-value of 1.89. According to the results, the coefficient of this variable is statistically significant at 5 per cent level of significance ($p<0.05$). From this analysis one can conclude that a better leadership practice can pay off an organization in increased organizational Performance as evidenced by the significant, positive regression coefficient ($\beta = 0.165$, $p < 0.05$).

This result is consistent with the findings of Odhong (2014), and Jemal (2011) which states Leadership Practices significantly positively affect Organizational Performance. A research conducted by the Work Foundation involving 260 in depth interviews conducted with 77 business leaders from six high-profile organizations, found that outstanding leaders are highly motivated to achieve excellence and are focused on organizational outcomes, vision and purposes. The leaders also understood that they cannot create performance themselves but are conduits for performance through their influence on others (Armstrong, 2012). Moreover, the positive significant relationship between Leadership Practices and organizational Performance is expected because generally, the better the leadership practice of an organization the better the performance should be.

Leadership practices entail effective communication, inclusiveness, executive skills, supervisory skills and systems. Positive attributes of these elements of leadership practices promotes effective employee engagement which is manifested in the work being effectively organized, the organization making good use of employees talents and skills, employees feeling secured in their jobs and recognized and the organization systems are aligned to rewarding and retaining good performers(Odhong,2014).

4.8.2. Effect of Workforce Optimization on Organizational Performance of the banks

Workforce Optimization is the organization's success in optimizing the performance of its workforce by establishing essential processes for getting work done, providing good working conditions, establishing accountability, and making good hiring choices.

According to the estimation results (table 4.7 above), workforce optimization is an important determinant of organizational performance. As presented in the table, the coefficient of this variable is 0.244. The parameter estimate has a t-statistic of 2.59 and a p-value of 0.01. This shows that the coefficient of the workforce optimization variable is statistically significant at the 5 per cent level of significance. This means the more an organization works to optimize (utilize) its workforce; the more a good organizational performance could be enjoyed.

This result is in a tandem with Odhong (2014) which found that workforce optimization is an important determinant of Organizational performance. The result of this study is also similar with the findings of Jemal(2011) which found a significant positive correlation among workforce optimization (HCM indicator) and organizational performance having($r=0.28$, 0.62, p, $<.01$).

4.8.3. Effect of Knowledge Accessibility on organizational Performance of the banks

This is the extent of an organization's 'collaborativeness' and its capacity for making knowledge and ideas widely available to employees. Organizations that capture, apply and re-use knowledge and best practices among departments and divisions, and have successful, collaborative team structures, are best able to leverage their knowledge and talent for business results.

The estimation results (table4.7), show that there is a positive relationship between knowledge accessibility and organizational performance. According to the estimation results, the coefficient of this variable is 0.088. The parameter estimate has a t-statistic of 0.899 and a corresponding p-value of 0.037. This implies that the coefficient of the variable is positive and statistically significant at 5 per cent level of significance. The results, therefore, indicate that knowledge accessibility is an important determinant of organizational performance. From this result, one can understand that if an organization makes Knowledge more accessible, more "collaborative" and capable for making knowledge and ideas widely available to employees, the organization can significantly reap more improved performance as a return. This can be evidenced by the significant positive relationship of knowledge accessibility and organizational performance ($\beta=0.088$, $p<0.05$).

This result is in line with Armstrong (2010), who found that innovation and knowledge transfer will in the long run help firms reduce costs, enhancing quality, and differentiating their products and services. This result is also consistent with the result suggested by Seliem, Ashour and Bontis (2006) cited in Jamal (2011) that organizational performance in knowledge intensive industry was influenced strongly by human capital with distinctive capabilities like high level of intelligence, creative ideas, initiation, ambition and inimitability.

4.8.4. The effect of Learning Capacity on Organizational Performance of the banks

Learning capacity is an organization's overall ability to learn and innovate – and ultimately, to achieve a continual level of improvement. An organization's ability to respond effectively to constant (and inevitable) changes in its environment hinges on its ability to learn. Hence, training, development and innovation must be valued and supported in order for an organization to have the capacity to respond to changing conditions and consistently achieve strategic goals.

The estimation result presented in table 4.7 indicates that learning capacity of employees is another important determinant of organizational performance. The estimation results show the coefficient of the variable is 0.213 and that it is positive. The t-statistic is 2.373 while the p-value is 0.019. The estimates confirm that the coefficient of learning capacity variable is statistically significant at 5 per cent level of significance.

This implies that the more an organization creates conducive environment for learning and innovation the more likely that the organization achieves a continual level of performance improvement as evidenced by a significant, positive regression coefficient ($\beta=0.213$, $p<0.05$). Hence, if training & development, and innovation are valued and supported by an organization, an organization can have the capacity to respond to changing conditions and consistently achieve strategic goals through improved performance.

This finding is consistent with Odhong (2014) that learning capacity of employees is an important determinant of organizational performance. He found that the regression coefficient for this variable to be 0.2516 and is positive. The estimates confirmed that the coefficient of learning capacity variable is statistically significant at 5 per cent level of significance. Jemal (2011) also found a significant positive correlation between learning capacity (HCM indicator) and organizational performance with ($r=0.26$, 0.7, $p<.01$) for employees and executive data set even though the correlation was weak. Ma Prieto and Revilla (2006) cited in Jamal (2011), also concluded that organizational financial performance varies with the configuration of organization learning capability by using f values has significance at 0.01 level of confidence.

Finally, the result is in line with the findings of Mohammed et al (2013) which recommended that organizations should pursue to invest in training and education of their employees, which will help them not only maintain their core competences and enhance their productivity and level of performance.

4.8.5. Effect of employee engagement on organizational performance of the banks

Employee engagement is an organization's capacity to engage, retain, and optimize the value of its employees. It hinges on how well jobs are designed, how employees' time is used, and the commitment shown to employees. The most successful organizations are those proactively managing talent retention by creating desirable work environments, including designing jobs purposefully, ensuring that employees' time is well used, recognizing and valuing employees and their work, and providing opportunities for employee advancement.

Finally, from table 4.7, the regression results show that employee engagement and organizational performance move in the same direction. According to the estimation, the coefficient for employee engagement is 0.051. The parameter estimate has a t-value of 0.485 and a p-value of 0.029. This implies that the coefficient of the variable is statistically significant at 5 per cent level of significance, thereby confirming that employee engagement is an important determinant of organizational performance.

The result supports the findings of Odhong(2014) which says employee engagement and organizational performance move in the same direction reporting the regression coefficient for employee engagement is 0.5132; thereby confirming that employee engagement is an important determinant of organizational performance. The study result is also consistent with Alfes et al., (2010) cited in Armstrong (2012) who concluded that engaged employees perform better, are more innovative and are more likely want to stay with their employers, enjoy greater levels of personal well being and perceive their work load to be more sustainable. The result is also consistent with Jemal(2011) who reported a Pearson's correlation which indicated a significant positive correlation ($r = 0.26, 0.7, p<.01$) between employees engagement (HCM indicator) and organizational performance for employees and executive data sets. Burke, Koyuncu, Jing and Fiksenbaum (2009) concluded that work outcomes increment variances were explained by work engagement of employees. Finally, the result of this study is consistent with the findings of Royal Bank of Scotland, which stated that by improving employee engagement, measurable improvements in business performance, and profit levels can result.

CHAPTER FIVE: SUMMARY OF FINDINGS AND CONCLUSIONS

5.1. Introduction

In this section of the paper, an effort is made to discuss the major findings of the research and draw conclusions based on findings. The paper sought to investigate the effect of human capital management practices on organizational performance taking selected commercial banks in Addis Ababa and know the status of human capital management practices in these commercial banks compared to the global standard and best practice companies as developed by McBassi and company (Basi.et al, 2008). Both descriptive and inferential statistics was used to analyze the data collected from the Commercial Banks Branch Managers. Data was collected using questionnaire rated on a one (1=strongly disagree) to five (5=strongly agree) Likert scale. 208 questionnaires were distributed and 162 (77.88%) were completely filled and returned which was used for analysis. Since the scale of the variables is ordinal (both for HCM practices, the predictor variables and organizational Performance, the dependant Variable), principal component analysis was applied to calculate the factor score of the explanatory variables and the dependant variable and multiple linear regression was used to develop the relationship between the explanatory and the dependant Variable.

Descriptive statistics was used in order to know the mean scores of the selected banks for the human capital management practices and organizational performance and inferential Statistics was used in order to see the correlation between the HCM practices and organizational Performance

5.1. Summary of the Findings

- Based on previous research, significant positive correlation was expected between HCM practices and organizational performance. Pearson bivariate correlation coefficient between HCM and organizational performance was calculated to measure the association. The results indicated a moderate positive correlation ($r = 0.670$, $p<.01$) between the independent (HCM) and dependent variable (organizational performance).
- The result also supported the idea that organizational performance can be significantly predicted through HCM scores. The slope value for HCM to predict the value of dependant variable (Organizational Performance) through regression equation was calculated as 1.078 and the coefficient of determination, which showed, explained variation as 0.508.
- The descriptive statistics indicated that the overall mean score of human capital management for the commercial banks participated in this study is 3.4. Bessi et al (2008) reported that the mean score of Australian organizations in overall human capital management was 3.1; the global average was 3.3, while best practice organizations scored 4.1. Specific categories included leadership practices, employee engagement, knowledge accessibility, workforce optimization and learning capacity. According to the data for this study, the Commercial banks involved in this study are on the right track in their human capital management practices.
- When it comes to the specific categories of the Human capital management drivers the score is as follows:
  - the leadership practices score for the commercial banks participated on this study is 3.6 which is better than the score of the Australian companies (3.1) and the global average (3.3) but less than that of the best practice companies (4.3)
  - Work force optimizations score of the commercial banks participated on this study indicates that the performance score in optimizing the workforce is 3.4. This score is in tandem with the Australian companies (3.4) but below the global average of 3.5 and the best practice companies where the score is 4.4.

- The score of knowledge accessibility for the selected Commercial banks participated in this study (3.5) is better than that of the Australian organizations (2.9) and the overall global average (3.4) and far below that of the best practice companies (4.6).
- Commercial banks participated on this stud has achieved a score of 3.3 on learning capacity which is still better than that of the Australian organizations(3.1) and the global average(3.2) while it is below the best practice companies (4.2).
- Employee engagement performance score on employee engagement for the Commercial Banks involved in this research is 3.4, which is better than that of the Australian Companies and the global overall average but below the best practice companies.

- The multiple linear regression analysis conducted in this study presented on table 4.7 indicated that, the five human capital management practices (leadership practices, workforce optimization, knowledge accessibility, learning capacity, and employee engagement) has all a positive slope coefficients on the multiple regression with β values of 0.165, 0.244, 0.088, 0.213, and 0.051 respectively.
- All the regression coefficients indicate that there is a significant positive correlation between the explanatory variables and the dependant variable (organizational performance).
- The respective standardized beta values of 0.241 (learning capacity), 0.23 (workforce optimization), 0.176 (leadership practices), 0.085(knowledge accessibility) and 0.044(employee engagement) from the multiple regression table conveys the relative importance of the variables in predicting organizational performance. Accordingly, Learning capacity (β=0.2441), ranks first in predicting the organizational performance followed by work force optimization (β=0.230). Leadership practices (β=0.176) is ranked third followed by knowledge accessibility (β=0.085) and employee engagement (β=0.044) has less contribution as compared to the other factors.

5.2. Conclusions

In knowledge era management of intellect plays central role in value of business (Bontis, 1999). The best way to create workplace and work force capable of addressing the challenges of global economy is revaluing of human capital and emphasizing team collaboration. People provide the only enduring source of wealth creation in the knowledge era, sustainable profitability, and this requires a strong focus on human capital. Consistently effective organizations are those that:

- ✓ have superior strategies for managing and developing people;
- ✓ focus on both individual capability and organizational capability;
- ✓ have learned to measure people as assets as well as costs; and are able to resist the short-run pressures that cause persistent under-investment in people.

  The payoff is superior financial performance (Pickett, 2005).

- ➢ The finding of the study supports the view that human capital management (HCM) has significant positive correlation with organizational performance.
- ➢ The study also concluded that organizational performance can be predicted on the basis of score on human capital management (HCM) .
- ➢ Additionally, the inquiry validated the significant positive correlation between leadership practices, workforce optimization, learning capacity, knowledge accessibility, employee's engagement (indicators of HCM) and organizational performance.
- ➢ A wider and clear understanding of the importance of human capital management may help us to develop our human resources into a more positive, committed and innovative work force. Understanding of the exact role of human capital may guide policy maker and organizations in terms of better decisions regarding organization tangible and intangible assets, strategic role of HR, policies for the attracting, enhancing, retaining of human capital, reporting the value of intangible assets.
- ➢ The study concludes that leadership practices, employee engagement, knowledge accessibility, workforce optimization and learning capacity enhance organizational performance.
- ➢ Finally, it concludes that it is possible to use HCM drivers to benchmark organizational HCM capabilities, identify HCM strengths and weakness, and link improvements or

backsliding in specific HCM practices with improvements or shortcomings in organizational performance.

5.3. Direction for Future Research

The conclusions of this research make important and valid contributions to theory and corporate setting but some of areas are still unexplored. The study only tried to investigate the status of human capital management practices in the selected commercial banks and the result of analysis seems unrealistic. Hence, I strongly recommend other researchers to further investigate this result and validate it of disprove it. This study relates and tries to predict performance based on HCM practices. Future researchers may investigate other factors other than the factors addressed in this research, which can significantly influence organizational performance. It only measures the association and prediction relation for HCM performance relation in knowledge intensive industry setting, so future studies may validate the relations for other industries in public, private and social sectors. Finally, in this research multiple linear regression was employed by transforming ordinal variable in to continuous but other researchers are advised to test this result using logistic regression particularly Ordinal logistic Regression.

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Appendix :A

ADAMA SCIENCE AND TECHNOLOGY UNIVERSITY

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

MBA PROGRAM

INSTRUMENT OF DATA COLLECTION

I am an MBA student at Adama Science and Technology University. I am doing my thesis on a title: ***The Effect of Human Capital Management Practices on Organizational Performance A Case of Banking Industry in Ethiopia With A Special Emphasis of Selected Banks Operating in Addis Ababa***. This is a questionnaire of data collection for this purpose. The information you provide will help better understand the said research area, as you are the only one who can give a correct picture of your organization. There is no “right” or “wrong” answer. So, please feel free and respond to all the questions. I will be highly thankful for sparing your time in filling up the questionnaire in a frank manner. Your responses will be kept strictly confidential and used only for academic purposes. Please do not write your Name. Thanking you, in advance, for your help in furthering this research endeavor.

Gerba Abdissa
MBA student at ASTU

Part One: Personal Data (put an 'X') mark

1. Your Gender: Male ☐ Female ☐
2. Your age range: Less than 30 ☐ Between 30 and 65 ☐
3. Your educational level: Diploma ☐ First Degree ☐ Masters Degree ☐ Ph. D. ☐

4. Years of your service: less than 5years ☐ 5-10 years ☐ 10-20 ☐ greater than 20 years ☐

Part Two: Human Capital Management Practices

Rate your organization on each statement, using a 1 to 5 scale as follows

Strongly agree	Agree	Undecided (Neither agree nor disagree)	Disagree	Strongly disagree
5	**4**	**3**	**2**	**1**

LEADERSHIP PRACTICES		
	Senior executives and managers:	
1	are open and honest in their communications	
2	have an effective process in place for communicating news, strategies and goals to employees	
3	Does a good job of letting employees know what is expected of them	
4	Seek and use employee input	
5	Work in partnership with employees	
6	Treat employees with respect	
	Executives/Managers:	
7	demonstrate organizational values	
8	eliminate unnecessary barriers to getting work done	
9	provide employees with performance appraisals, and inspire confidence	
10	We have highly effective systems and processes in place for identifying and developing our next generation of leaders and ensuring smooth leadership transitions.	
WORKFORCE OPTIMIZATION		
11	We have well-defined processes that we use to get work done	
12	We continually seek to improve these processes, and	
13	employees are well trained on those processes	
14	Employees have access to the materials and technologies they need to be effective	
15	Working conditions contribute to good performance	
16	Employees are held accountable for producing quality work	
17	promotion is based on competence	
18	poor performers are terminated	
19	Selection is based on skill requirements	
20	new hires receive adequate orientation, induction, and a description of required skills	
21	employees provide input into hiring decisions	
22	We have highly effective systems and processes in place for managing employees' performance and talents	
23	This system enables us to view the overall proficiency of our workforce	
24	This system helps employees realize their full performance potential in their current jobs	
25	This system identifies development opportunities for those experiencing performance difficulties	
26	This system prepares motivated employees to progress in their career fields	
KNOWLEDGE ACCESSIBILITY		
27	People have the information they need to do their jobs	

28	the necessary manuals and job tools are available	
29	there are procedures in place that enable employees to access training when they need it	
30	We encourage and enable teamwork	
31	We Set aside time for people to share with and learn from one another	
32	We share best practices and tips ,work to improve them	
33	Circulate them across departments	
34	We have effective systems in place that collect and store information	
35	We make information available to all employees who might need it	
	LEARNING CAPACITY	
36	New ideas are welcomed	
37	employees are encouraged to find new and better ways to do work	
38	employees' input is sought in solving problems	
39	Training is practical and supports organizational goals	
40	Employees receive training on work-related technologies	
41	Employees have formal development plans in place which help them achieve their career goals	
42	The behavior of our leaders consistently demonstrates that learning is valued in our organization	
43	Managers consistently make learning a priority	
44	We have a learning management system that automates the administration of all aspects of training/learning events	
	EMPLOYEE ENGAGEMENT	
45	Work is effectively organized, makes good use of employees' talents and skills	
46	Work is interesting and meaningful	
47	Employees have appropriate responsibility to determine how best to do their work	
48	Creative job design is used to help jobs "fit" employees' needs.	
49	Employees' jobs are secure	
50	Employees are recognized for their accomplishments	
51	Employees are provided with opportunities for advancement	
52	The work load allows employees to do their jobs right	
53	The work load allows employees to Make thoughtful decisions	
54	The work load allows employees to achieve an appropriate balance between work and home	

55	We have systems in place that help us retain good performers by continually evaluating trends in employee engagement	
56	We use the information from these systems to determine the key drivers of productivity and customer satisfaction	

Please answer the following items concerning your organization's performance **relative to your key competitors in the industry over the last few years. (rate as 1=poor, 2=fair 3=good 4=very good, 5=excellent)**

	In the past few years your organization's:	
1	Industry leadership,	
2	employee satisfaction and retention,	
3	Mobilization of Deposits,	
4	Branch Expansions	
5	Innovation performance	
6	Success rates in new product development	
7	Overall business performance and success,	

Thank You for Giving Your Precious Time!

APPENDIX B: TESTS OF NORMANLITY

	LEADERSHIP PRACTICES	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
		Statistic	df	Sig.	Statistic	df	Sig.
Organizational Performance	Strongly Disagree	.307	4	0.067	.729	4	.064
	Disagree	.415	13	.0721	.650	13	.060
	undecided	.345	42	.0553	.802	42	.070
	Agree	.350	86	.082	.793	86	.10
	Strongly Agree	.380	17	.053	.632	17	.0570
	WORKFORCE OPTIMIZATION	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
		Statistic	df	Sig.	Statistic	df	Sig.
Organizational Performance	Disagree	.273	20	.072	.864	20	.09
	undecided	.331	61	.1620	.815	61	.064
	Agree	.369	73	.0612	.724	73	.0821
	Strongly Agree	.375	8	.112	.732	8	.0581
	KNOWLEDGE ACCESSIBILTY	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
		Statistic	df	Sig.	Statistic	df	Sig.
Organizational Performance	Disagree	.340	17	.063	.814	17	.053
	undecided	.300	53	.120	.846	53	.070
	Agree	.331	79	.0731	.754	79	.071
	Strongly Agree	.317	13	.10	.795	13	.06
	LEARNING CAPACITY	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
		Statistic	df	Sig.	Statistic	df	Sig.
Organizational Performance	Strongly Disagree	.338	7	.15	.769	7	.20
	Disagree	.438	20	.12	.611	20	.067
	undecided	.269	53	.068	.846	53	.082
	Agree	.347	72	.091	.762	72	.093
	Strongly Agree	.381	10	.074	.640	10	.059
	EMPLOYEE ENGAGEMENT	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
		Statistic	df	Sig.	Statistic	df	Sig.
Organizational Performance	Disagree	.435	18	.052	.614	18	.094
	undecided	.293	62	.061	.811	62	.11
	Agree	.323	79	.053	.797	79	.120

Appendix C: Descriptive Statistics of all the questionnaire items

Leadership Practices			
	N	Mean	Std. Deviation
Senior Executives and managers are open and honest in their communications	162	3.65	1.030
Senior executives and Managers have an effective process in place for communicating news, strategies and goals to employees	162	3.64	.969
Senior Executives and Managers does a good job of letting employees know what is expected of them	162	3.67	1.046
Senior Executives and Managers Seek and use employee input	162	3.54	.992
Senior Executives and Managers Work in partnership with employees	162	3.69	.980
Senior Executives and Managers Treat employees with respect	162	3.59	1.066
Executives/ managers demonstrate organizational values	162	3.72	1.042
Executives/ managers eliminate unnecessary barriers to getting work done	162	3.41	1.043
Executives/ managers provide employees with performance appraisals, and inspire confidence	162	3.60	.901
We have highly effective systems and processes in place for identifying and developing our next generation of leaders and ensuring smooth leadership transitions.	162	3.37	1.021
Valid N (listwise)	162	3.588	

Workforce Optimization			
	N	Mean	Std. Deviation
We have well-defined processes that we use to get work done	162	3.78	.892
We continually seek to improve these processes, and	162	3.64	.847
Employees are well trained on those processes	162	3.75	2.440
Employees have access to the materials and technologies they need to be effective	162	3.28	1.105
Working conditions contribute to good performance	162	3.55	1.081
Employees are held accountable for producing quality work	162	3.80	.920
Promotion is based on competence	162	3.25	1.087
Poor performers are terminated	162	2.84	1.003
Selection is based on skill requirements	162	3.32	1.019
New hires receive adequate orientation, induction, and a description of required skills	162	3.64	.944
Employees provide input into hiring decisions	162	3.10	1.017
We have highly effective systems and processes in place for managing employees' performance and talents	162	3.00	1.051
This system enables us to view the overall proficiency of our workforce	162	3.12	.922

This system helps employees realize their full performance potential in their current jobs	162	3.30	.996
This system identifies development opportunities for those experiencing performance difficulties	162	3.28	.942
This system prepares motivated employees to progress in their career fields	162	3.26	1.019
Valid N (listwise)	162	3.37	

Knowledge Accessibility			
	N	Mean	Std. Deviation
People have the information they need to do their jobs	162	3.76	1.026
The necessary manuals and job tools are available	162	3.68	1.073
there are procedures in place that enable employees to access training when they need it	162	3.44	1.051
We encourage and enable teamwork	162	3.86	1.060
We Set aside time for people to share with and learn from one another	162	3.48	.954
We share best practices and tips ,work to improve them	162	3.54	.985
Circulate them across departments	162	3.18	1.039
We have effective systems in place that collect and store information	162	3.37	.965
We make information available to all employees who might need it	161	3.42	1.110
Valid N (listwise)	161	3.53	

Learning capacity			
	N	Mean	Std. Deviation
New ideas are welcomed	162	3.35	1.176
Employees are encouraged to find new and better ways to do work	162	3.25	1.115
Employees' input is sought in solving problems	162	3.28	1.018
Training is practical and supports organizational goals	162	3.64	1.061
Employees receive training on work-related technologies	162	3.56	1.120
Employees have formal development plans in place which help them achieve their career goals	162	3.20	1.074
The behavior of our leaders consistently demonstrates that learning is valued in our organization	162	3.35	1.150
Managers consistently make learning a priority	162	3.26	1.013
We have a learning management system that automates the administration of all aspects of training/learning events	162	3.19	1.011
Valid N (listwise)	162	3.34	

Employee Engagement			
	N	Mean	Std.

			Deviation
Work is effectively organized, makes good use of employees' talents and skills	162	3.38	1.109
Work is interesting and meaningful	162	3.61	1.082
Employees have appropriate responsibility to determine how best to do their work	162	3.62	.920
Creative job design is used to help jobs "fit" employees' needs.	162	3.33	1.003
Employees' jobs are secure	162	3.73	.970
Employees are recognized for their accomplishments	162	3.58	.897
Employees are provided with opportunities for advancement	162	3.33	.996
The work load allows employees to do their jobs right	162	3.23	.954
The work load allows employees to Make thoughtful decisions	162	3.17	.893
The work load allows employees to achieve an appropriate balance between work and home	162	3.10	.893
We have systems in place that help us retain good performers by continually evaluating trends in employee engagement	162	3.22	1.022
We use the information from these systems to determine the key drivers of productivity and customer satisfaction	162	3.33	1.086
Valid N (listwise)	162	3.39	

Appendix D

Annex: Sample size determination (confidence level = 0.05)

Table for Determining Sample Size from a Given Population

N	*S*	*N*	*S*	*N*	*S*
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

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Note.—*N* is population size.
S is sample size.