

HUMAN CAPITAL, QUALITY OF DECISIONS AND PERFORMANCE OF COMMERCIAL BANKS AND INSURANCE FIRMS IN KENYA

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ABSTRACT

The purpose of the study was to determine if the influence of human capital on performance of insurance firms and commercial banks in Kenya is mediated by quality of decisions. A census survey was carried out on all the 43 licensed commercial banks and 45 insurance firms in Kenya. Out of the 88 firms that were targeted, 54 responded, constituting a response rate of 61%. Hypotheses were tested using regression analysis. Descriptive statistics were computed for organizational data and the main characteristics of the study variables. Data was presented in form of tables. The findings revealed that the influence of human capital on firm performance is mediated by quality of decisions. The findings were in line with existing literature, particularly Rogers and Blenko (2006) who contend that making good decisions means being clear about which decisions really matter. It requires getting the right people focused on those decisions at the right time. Strategic choices have a crucial impact on corporate long term performance (Geletkanycz and Hambrick, 1997), and hence on company survival. This study contributes to existing knowledge by empirically confirming that quality of decisions mediates the relationship between human capital and firm performance. Organizations should enhance the quality of strategic decisions by carefully evaluating the various alternatives, understanding environmental influences and obtaining as much information as possible. The quality of strategic decisions depends on the amount of human capital possessed by the decision makers. Organizations can enhance their human capital through rigorous selection procedures and matching the right people with the right jobs. Employees with the relevant knowledge, skills and competencies should be encouraged to obtain and share information with an aim of contributing towards high quality decisions that increase organizational competitiveness.

Key words: Human Capital, Quality of Decisions, Firm Performance, Commercial Banks, Insurance Firms, Kenya

1. Introduction

A firm's human capital is an important source of sustained competitive advantage (Hitt *et al.*, 2001) and therefore investments in the human capital of the workforce may increase employee productivity and financial results (Pfeffer, 1998). Helping individuals to develop knowledge, skills and competence increases the human capital of the organization. People are better equipped to do their jobs and this is generally of value to the organization (Cunningham, 2002). The resource-based theory argues that firm performance is a function of how well managers build their organizations around resources that are valuable, rare, inimitable, and lack substitutes (Barney, 1991). Human capital as resources meet these criteria, hence the firm should care for and protect resources that possess these characteristics, because doing so can improve organizational performance (Crook, Ketchen, Combs and Todd, 2008). Having a highly skilled workforce may not guarantee a higher level of performance because employees should be willing to share the knowledge and skills that they possess with other coworkers and managers, hence contributing to high quality decisions. An organization's human capital influences the quality of decisions made. Strategic decisions have important consequences for organizational performance and are often the result of the involvement of actors both from inside as well as outside the organization (McKenzie *et al.*, 2009).

Kenya's development strategy is built on four pillars, where one of them is to invest in human capital. While Kenya is blessed with relatively a high quality and deep base of human capital, it has yet to find ways to deploy it more efficiently. Strengthening the quality and exploiting the productive use of Kenya's human capital must be a high policy priority (Thugge, Heller and Kiringai, 2008). The availability of a well developed human resource base is critical to the realization of Kenya's Vision 2030. The much needed higher productivity in the process of realization of Vision 2030 depends on the quality of human capital and how they are utilized (Kimutai and Patrick, 2011). One of the problems that insurance firms and commercial banks in Kenya face is low human capital. A study done by PriceWaterHouseCoopers (2010) on Kenyan insurance firms found that there is a human capital challenge facing insurance firms, where many insurers are facing mounting skills shortages. The banking industry is being buffeted by a storm of trends and challenges such as employee turnover which is a persistent problem and skilled talent is in short supply (www.sap.com). According to the Central Bank of Kenya Bank Supervision Annual Report (2012) all the cadres of staff increased with the exception of supervisory level which reduced by 84, which poses a human capital challenge.

It has been demonstrated empirically that the human capital of a firm becomes a strategic asset when that knowledge is valuable and unique, thus generating greater competitiveness and ultimately more profit (Subramaniam and Youndt, 2005). While many studies have demonstrated the positive impacts of human capital on economic outcomes, others have yielded mixed results depending on the measure of the dependent variable used. Could these conflicting results be explained by other factors that influence this relationship? The quality of strategic decisions depends on the amount of human capital possessed by the employees whose input organizations heavily rely on. Pfeffer (1998) concluded from a study on a wide range of industries in more than twenty countries that how organizations manage their people determine their long term success and economic results. Huselid (1995) also found that Human Resource Management practices have an economically and statistically significant impact on corporate financial performance.

Awan and Sarfraz (2013) did a study on the impact of human capital on company performance and the mediating effect of employee satisfaction. The study found a strong positive relationship between human capital and firm performance, and further found that employee satisfaction mediated this relationship.

However the sample comprised of only three firms in the telecom sector in Pakistan, which was a small sample. Roca-Puig, Beltrán-Martín and Cipres (2011) did a study on the combined effect of human capital, temporary employment and organizational size on firm performance. The study considered the moderating role of temporary employment and organizational size on the relationship between human capital and firm performance. The study found that the positive effect of human capital on firm performance is greater in large firms with low temporary employment than in small firms with high temporary employment. These findings only applied where Return on Sales was examined, but not where labor productivity was selected as the dependent variable. The study therefore yielded mixed results depending on the measure of the dependent variable used. The study further showed a weak positive correlation ($r=0.221$) between human capital and organizational size, which may be an indicator of organizational size being a less significant moderating variable.

Kunc and Morecroft (2010) did a study on managerial decision making and firm performance under a resource-based paradigm. The results showed that teams followed different decision-making processes leading to heterogeneous resources and performance. The results support the importance of managerial foresight and resource management as a source of superior performance. The study sought to understand the link between managerial decision making and firm performance, while the current study considers the mediating role of quality of decisions on the relationship between human capital and firm performance. The above studies focused on the mediating and moderating role of various variables that yielded mixed results, they were done in different countries hence, contextual differences and some of the studies utilized small samples, while the current study used a large sample which comprised all the insurance firms and commercial banks in Kenya. This study therefore was aimed at filling up the identified gaps in previous studies and attempted to answer the research question, does quality of decisions mediate the influence of human capital on the performance of insurance firms and commercial banks in Kenya?

2. LITERATURE REVIEW

Theoretical Foundation

This study is guided by the resource-based theory which emphasizes the critical importance of internal resources for sustainable competitive advantage. This perspective argues that firm performance is a function of how well managers build their organizations around resources that are valuable, rare, inimitable, and lack substitutes (Barney, 1991). Intangible resources like human capital are more likely to produce a competitive advantage because they are rare and socially complex, and therefore difficult to imitate (Hatch and Dyer, 2004; Hitt *et al.*, 2001). In particular, specific human capital represents an inimitable asset in terms of knowledge and skills that are only of use to an individual company (Lepak and Snell, 2002; Rauch *et al.*, 2005). Networks are fundamental in social capital because networks can provide resources, which may facilitate investment, can provide access to information, and reduce transactional cost. Trust is one of the resources that may be the result of networks (Zhang and Fung, 2006) and this is a resource that is socially complex and difficult to imitate. Firms obtain sustainable competitive advantages by implementing strategies that exploit their internal strengths, while neutralizing external threats and avoiding internal weaknesses. Strategic resources are heterogeneous and immobile across firms, and that these resources are stable over time. The theory identifies the firm's potential key resources and evaluates whether these resources fulfill the following criteria: Valuable – A resource must enable a firm to employ a value-creating strategy, by either outperforming its competitors or reduce its own weaknesses; Rare – To be of value, a resource must be rare by definition. In a perfectly competitive strategic factor market for a resource, the price of the resource will be a reflection of the expected discounted future above-average returns; Inimitable – If a valuable resource is controlled by only one firm it could be a source of a competitive

advantage. This advantage could be sustainable if competitors are not able to duplicate this strategic asset perfectly. An important underlying factor of inimitability is causal ambiguity, which occurs if the source from which a firm's competitive advantage stems is unknown (Peteraf, 1993). If the resource in question is knowledge-based or socially complex, causal ambiguity is more likely to occur as these types of resources are more likely to be idiosyncratic to the firm in which it resides (Mahoney and Pandian, 1992). Non-substitutable – Even if a resource is rare, potentially value-creating and imperfectly imitable, an equally important aspect is lack of substitutability. If competitors are able to counter the firm's value-creating strategy with a substitute, prices are driven down to the point that the price equals the discounted future rents, resulting in zero economic profits.

Human Capital

There have been a number of efforts to define and investigate human capital. One stream of research defines human capital as the abilities individuals possess (Burt, 2000). Another stream of research incorporates education and experience into human capital. Human capital is formed by aptitudes, competences, experiences and skills of internal members of the organizations (Bontis et al., 2002). Pil and Leana (2009) defined Human capital as an individual's cumulative abilities, knowledge and skills developed through formal and informal education and experience. Human capital can provide direct benefits in the form of superior performance, productivity and career advancement. Human capital refers to the collective knowledge, skills, and abilities of the individuals working in an organization (Snell and Dean, 1992). From an organizational perspective, human capital is the result of a firm's deliberate investment through the selective hiring of employees with high general skills (or formal education) plus a firm investment in training of more specific skills through in-house training activities (Lepak and Snell, 1999, 2002; Skaggs and Youndt, 2004). Firms can thus increase their human capital levels through human resource management practices related to employee selection and training. Organizations can use selection to increase their generic human capital, while focusing on training to develop firm-specific human capital (Groot and Van Den Brink, 2000; Skaggs and Youndt, 2004).

Human capital is formed by aptitudes, competences, experiences and skills of internal members of the organizations (Bontis, 1999; Bontis *et al.*, 2002). Organizations can increase their human capital by attracting individuals with high skills from the external labor market and/or by internally developing the skills of their current members. Human capital generates value through investments in increasing individuals' knowledge, skills, talents and know-how (Roos et al., 1997). One type of investment is education. Higher levels of education reflect greater investments in human capital (Bontis, 1999). An individual who is highly educated is more knowledgeable and performs better than others, and gets more opportunities to move upward (Hitt et al., 2001). Pennings, Lee and Witteloostuijn (1998) indicates that age is another form of human capital, as younger employees would rather invest more time and effort in increasing their competency compared to older employees, and the return on investment is much higher. Human resources are crucial in creating human capital because organizations do not create knowledge otherwise organizations can increase their human capital by attracting individuals with high skills from the external labor market and/or by internally developing the skills of their current members. In the latter, a big role is played by employee retention. In terms of human capital, senior managers are crucial in attracting, selecting and retaining the right people in the organization as well as in devising and addressing training needs to develop the participation of employees and volunteers (Hudson, 1995).

Quality of Decisions

Mintzberg (1976) defines decision making as an incremental, sequential process which does not necessarily happen at only one point in time. It involves progression from one stage of planning to the next, where plans move along and develop in relation to the decision being considered. Harrison (1996) contends that decision making is the most significant activity engaged in by managers in all types of organizations and at any level. It is the one activity that most nearly epitomizes the behaviour of managers, and the one that clearly distinguishes managers from other occupations in the society. Of all the managerial functions that executives perform, the act of making a decision is without equal in importance. To be sure, managers and executives do many things besides make decisions.

Nonetheless, the current and lasting impact of managerial performance is centered in the efficacy of executive choices. Strategic decisions, therefore, set the tone and tempo of managerial decision making for every individual and unit throughout the entire organization. If the decision making at the top of the organization is ineffective, then the choices made at lower levels of management will be the same. Similarly, if top management's strategic choices tend to be successful, it reflects favourably on choices made in other parts of the organization. Strategic decisions are highly complex and involve a host of dynamic variables. The major elements of these decisions are the objectives of the decision maker, the available information, and the potential alternatives (Delano, Parnell, Smith and Vance, 2000).

Decision quality is based on the thoroughness with which all relevant leadership and technical issues are considered. To evaluate the quality of a decision or series of decisions at the time they are being made, standards are needed such as those that are supplied by the following criteria by Rausch (2007): Direction - How to decide on short-term and long-term direction and priorities for the organization, organizational unit, or function, (including development of the vision), how to organize to achieve them, and how to assign accountability; Communications - What should be communicated to stakeholders, individually and in groups, when and how; Participation - How to ensure appropriate participation in decision making and planning with consideration for who should participate, when and how; Competence - How to ensure that there is at least adequate competence of all stakeholders, (through selection and development efforts) and that most effective use is made of competence strengths of individuals and/or teams; Coordination - How to ensure coordination, and stimulate cooperation, while anticipating, preventing, and managing potentially damaging conflict; Satisfaction - How to achieve highest level of satisfaction by all stakeholders.

The criteria for quality decisions include: Communications; Appropriate participation; Competence assessment and development; Ensuring at least adequate satisfaction; Setting goals/objectives and working toward their achievement; Ensuring coordination and stimulating cooperation (including preventing and resolving conflict); Working with norms including those that pertain to ethics, diversity and organizational justice; Fair and comprehensive project and performance reviews, and performance evaluations (Rausch and Anderson, 2011).

Harrison (1996) notes that successful strategic choices tend to manifest a common set of characteristics: The managerial objectives are compatible with and reflective of the current strategic gap of the organization; There is an open search for alternative courses of action that encompass the principal stakeholders of the organization and which consider applicable time and cost constraints along with the cognitive limitations of the decision maker; There is an objective comparison and evaluation of a set of alternative courses of action with a principal emphasis on probabilistic consequences attendant on the selection of a given alternative; There is a tendency to select that alternative most likely to result in the attainment of the objectives within the boundaries of rational choice; The implementation of a chosen alternative proceeds within the established way of doing business and is reflective of propitious timing and balanced risk and reward factors in relation to the expected outcome; There is no presumption of success following implementation and

continuous measurement and evaluation of emerging results is accompanied by timely corrective action to ensure an outcome that attains the objectives.

Human Capital, Quality of Decisions and Firm Performance

Helping individuals to develop knowledge, skills and competences increases the human capital of the organization. People are better equipped to do their jobs (if the process works) and this is generally of value to the organization. However, we know that merely developing the human capital of the organization is not enough to guarantee success. Strategic and operational choices of small organizations are quite often limited by resource constraints, but there are evidences that human capital development facilitated by training can play a pivotal role in innovation and consolidation of small and medium size organizations (Baldwin and Johnson, 1996). It is assumed that workers have the opportunity to contribute to organizational success and as they are closer to the work situation they may be able to suggest improvements which management would be unable to by virtue of their position in the hierarchy. Rather than trying to control employees, they should be given discretion to provide better service and achieve a higher standard of work (Wilkinson, 1998). In instances where employees do not possess the basic competence to make a decision or perform an activity, empowerment goes out of the window. For empowerment and trust to be extended there has to be a basic competence on behalf of the person who is actually empowering others to make decisions and take actions. In situations where executives and managers lack that competence, specifically in the ability to oversee without micro-managing, empowerment is lacking (Diab, 2011).

Miller and Jangwoo (2001) argue that a well designed decision making process will have its most positive impact on company financial performance when it is carried out by a capable, motivated and dedicated workforce. Prior research has determined that such a workforce can be developed via an organization's commitment to its employees in the form of ample training and compensation, fairness, and meaningful personal consideration. The authors argue that organization's commitment to its employees will enhance financial performance where it is able to improve the quality of a decision making process that emphasizes ample information processing, collaboration, and initiative. Conversely, these three dimensions of decision making are expected to be of little value where organization's commitment to its employees and hence a capable and motivated workforce are lacking. The most frequently discussed process dimensions of decision making, by themselves, are unlikely to contribute to superior performance. Rather, it is only when an organization is able to build a cadre of capable, dedicated decision makers that it will be able to execute process effectively and earn superior financial returns (Barney & Zajac, 1994; Lado & Wilson, 1994).

In integrative reviews of the literature on decision making process, three dimensions come up again and again as being potentially vital to the quality of decision making (c.f. the syntheses of Fredrickson, 1986, Miller, 1987, Mintzberg, 1973, and Hart, 1992). These dimensions are information processing, collaboration, and initiative. The information processing dimension reflects the effort devoted to scanning and analyzing information to better understand a company's threats, opportunities and options. The collaboration dimension gauges how much people consult and collaborate together in making decisions. And the initiative dimension assesses whether decision makers are biased towards action or proactiveness in competing and getting things done. While each of these dimensions has the potential to contribute to more effective decisions, this potential will not be realized unless decision makers are capable, motivated, and committed to their companies. In other words, even the most promising approaches to making decisions will produce little benefit without the support of a cadre of competent, motivated human resources (Barney & Zajac, 1994; Lado & Wilson, 1994). Previous research has shown that OCE will help to create these resources (Moorman et al., 1998; Organ & Konovsky, 1989; Shore & Wayne, 1993).

Quality in management decision making is vital for any organization. Strategic decision-making is essential to firm performance. Decisions are made every day by industry, government agencies, and individuals. The major elements of these decisions are the objectives of the decision maker, the available information, and the potential alternatives. Decision quality is based on the thoroughness with which all relevant leadership and technical issues are considered. Making a good decision involves making trade-offs between multiple objectives to select an alternative that best meets the values of the decision maker. This is even more difficult when the decision involves uncertain information (Delano, Parnell, Smith and Vance, 2000). A study by Rogers and Blenko (2006) found that high performers are decision-driven organizations, built for effective decision-making and execution. What sets apart the high performers is the quality of their decision-making. They make the most important decisions well, and then they make them happen, quickly and consistently.

The authors further contend that making good decisions means being clear about which decisions really matter. It requires getting the right people focused on those decisions at the right time. That is true whether the decisions involve the largest issues that a company faces or more tactical, day-to-day concerns. Decision-driven organizations are distinguished by the consistency and caliber of their decision-making and execution at every level. The difference is striking. More than 90 percent of high-performance organizations that were surveyed believe that significant decisions get made well in their organizations, resulting in prompt, effective action. By contrast, nearly half of those who rated their organizations less effective believe that they often fail at making and executing decisions.

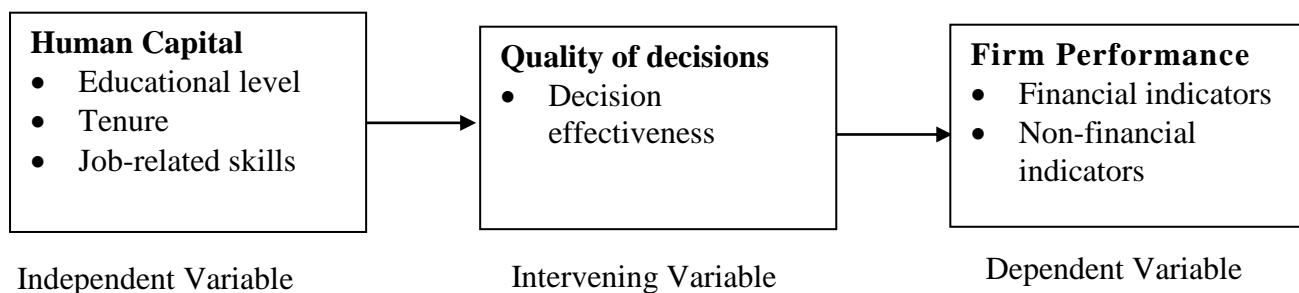


Figure 1: Conceptual Model

Firm performance depends on the quality of decisions made. The human capital pool can improve firm performance through its contribution to high quality strategic decisions that determine the course of action needed to achieve the desired organizational outcomes. Quality strategic decisions depend on the amount of human capital possessed by the decision makers. The amount of knowledge, skills and competencies possessed by the workforce, and their ability to contribute to strategic decisions determine firm performance. This leads to the hypothesis that:

H1: The influence of human capital on firm performance is mediated by quality of decisions.

3. RESEARCH METHODOLOGY

The research design that was used is descriptive cross-sectional design. The target population of this study was all the 45 insurance companies and 43 commercial banks in Kenya, where a census survey was carried out on all the 88 firms. The study made use of both primary and secondary data. The secondary data was obtained through a review of financial statements where the Return on Assets (ROA) and Return on Equity (ROE) were obtained for a three year period as financial indicators of firm performance, after which an average score was computed. The organization was the unit of analysis and the target respondents were the

Human Resource Managers, Operations Managers and Marketing Managers of the commercial banks and insurance firms. The Human Resource Manager responded to the sections on the organization data and Human Capital, the Operations Manager responded to the section on Quality of Decisions, while the Marketing Manager responded to the section on the non-financial indicators of firm performance. The Baron and Kenny approach was used to test the hypothesized relationship. Descriptive statistics such as frequencies and percentages were computed for organizational data and multiple choice questions in order to describe the main characteristics of the variables of interest in the study. Mean scores were computed for likert type of questions. Data was presented in form of tables.

4. DATA ANALYSIS AND RESULTS

This study sought to establish whether the influence of human capital on firm performance is mediated by quality of decisions. The tests were carried out using multiple regression analysis. The tests were done at 5% significance level ($\alpha = 0.05$). To test the hypotheses, it was necessary to compute composite scores for variables that had several measures. In this regard, overall non-financial measures of firm performance (quality of service, customer satisfaction and efficiency in service delivery) were collapsed into one composite index. Similarly, composite scores were calculated to represent the responses to the various attributes that defined human capital and quality of decisions, which were used as input to the evaluation. The outline and the results from the evaluation were as discussed below:

H1: The influence of human capital on firm performance is mediated by quality of decisions

The Baron and Kenny approach in testing for mediation was employed for the purposes of this study. For mediation effect to be considered positive, four conditions should be fulfilled:

1. The independent variable is significantly related to the dependent variable in the absence of the mediating variable
2. The independent variable is significantly related to the mediator variable
3. The mediator variable is significantly related to the dependent variable.
4. When controlling for the effects of the mediating variable on the dependent variable, the effect of the independent variable on the dependent variable is insignificant in the presence of the mediating variable

The outcome of the regression analysis yielded results as presented below:

**Table 1: Mediating effect of quality of decisions on human capital and firm performance (First step)
Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|------|----------|-------------------|----------------------------|
| 1 | .391 | .153 | .129 | .101316 |

ANOVA

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|-------|------|
| 1 | Regression | .067 | 1 | .067 | 6.494 | .015 |
| | Residual | .370 | 36 | .010 | | |
| | Total | .436 | 37 | | | |

Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|-------|---------------------------------------|-----------------------------|------------|---------------------------|-------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .452 | .147 | | 3.065 | .004 |
| | Human capital computed as a composite | .473 | .186 | .391 | 2.548 | .015 |

Predictors: (Constant), human capital
Dependent Variable: non financial performance

The results in table 1 show that the influence of human capital on firm performance is significant (R Square = 0.153, F= 6.494, $p < 0.05$) with 15 % of the variation in firm performance being significantly explained by the variation in human capital. The beta was also significant ($\beta = 0.473$, $t = 2.548$, $p < 0.05$). The first mediation condition which states that the independent variable should be significantly related to the dependent variable in the absence of the mediating variable was thus satisfied.

Table 2: Mediating effect of quality of decisions on human capital and firm performance (Second step)**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|------|----------|-------------------|----------------------------|
| 1 | .449 | .202 | .181 | .091406 |

ANOVA

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|-------|------|
| 1 | Regression | .082 | 1 | .082 | 9.855 | .003 |
| | Residual | .326 | 39 | .008 | | |
| | Total | .408 | 40 | | | |

Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|-------|---------------|-----------------------------|------------|---------------------------|-------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .446 | .120 | | 3.711 | .001 |
| | Human capital | .482 | .154 | .449 | 3.139 | .003 |

Predictors: (Constant), human capital computed as a composite
 Dependent Variable: quality of decisions computed as a composite

In the second step as presented in table 2, the influence of human capital on quality of decisions was significant (R Square = 0.202, F= 9.855, $p < 0.05$) with 20% of the variation in quality of decisions being significantly explained by variation in human capital. The beta was also significant ($\beta = 0.482$, $t = 3.139$, $p < 0.05$), thus satisfying the second condition which states that the independent variable should be significantly related to the mediator variable.

Table 3: Mediating effect of quality of decisions on human capital and firm performance (Third and Fourth step)**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | |
|-------|------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change |
| 1 | .690 | .476 | .460 | .080382 | .476 | 29.939 | 1 | 33 | .000 |
| 2 | .719 | .516 | .486 | .078401 | .041 | 2.689 | 1 | 32 | .111 |

ANOVA

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|--------|------|
| 1 | Regression | .193 | 1 | .193 | 29.939 | .000 |
| | Residual | .213 | 33 | .006 | | |
| | Total | .407 | 34 | | | |
| 2 | Regression | .210 | 2 | .105 | 17.081 | .000 |
| | Residual | .197 | 32 | .006 | | |
| | Total | .407 | 34 | | | |

Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|-------|----------------------|-----------------------------|------------|---------------------------|-------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .210 | .112 | | 1.876 | .070 |
| | quality of decisions | .738 | .135 | .690 | 5.472 | .000 |
| 2 | (Constant) | .082 | .134 | | .607 | .548 |
| | quality of decisions | .629 | .147 | .588 | 4.265 | .000 |
| | Human capital | .276 | .168 | .226 | 1.640 | .111 |

Predictors: (Constant), quality of decisions

Predictors: (Constant), quality of decisions, human capital

Dependent Variable: non financial performance

The third and fourth steps as presented in table 3 were combined as per the instructions during the test. In the third step the influence of quality of decisions on firm performance was significant (R Square = 0.476, F= 29.939, $p < 0.05$). The β was also statistically significant ($\beta = 0.738$, $t = 5.472$, $p < 0.05$), thus satisfying the third condition which states that the mediator variable should be significantly related to the dependent variable. In the fourth step the influence of the independent variable (human capital) on the dependent variable (firm performance) was insignificant in the presence of the mediating variable, quality of decisions (R Square = 0.516, F= 17.081, $p > 0.05$) and the beta was also statistically insignificant ($\beta = 0.276$, $t = 1.640$,

$p > 0.05$), and thus satisfied the fourth condition which states that the effect of the independent variable on the dependent variable should be insignificant in the presence of the mediating variable.

The test thus satisfied all the four conditions that should be met for a mediation relationship to be considered, and therefore it can be concluded that quality of decisions mediates the influence of human capital on firm performance. The hypothesis that the influence of human capital on firm performance is mediated by quality of decisions was therefore confirmed.

Discussion and Conclusions

Decision quality is enhanced when the decision makers have the relevant knowledge, skills and competencies, thereby resulting to increased firm performance. Developing the human capital of the organization is not enough to guarantee success. There is empirical evidence that the quality of decisions depends on human capital. Strategic and operational choices of small organizations are quite often limited by resource constraints, but there are evidences that human capital development facilitated by training can play a pivotal role in innovation and consolidation of small and medium size organizations (Baldwin and Johnson, 1996).

Rogers and Blenko (2006) contend that making good decisions means being clear about which decisions really matter. It requires getting the right people focused on those decisions at the right time. That is true whether the decisions involve the largest issues that a company faces or more tactical, day-to-day concerns. Decision-driven organizations are distinguished by the consistency and caliber of their decision-making and execution at every level. This implies that if organizations build their human capital, the decision quality will improve, which in turn translates into improved firm performance. Organizations should enhance the quality of strategic decisions by carefully evaluating the various alternatives, understanding environmental influences and obtaining as much information as possible. The quality of strategic decisions depends on the amount of human capital possessed by the decision makers. Day-to-day decision making sometimes entails a conflict between reason and emotion since many decisions require self-control and emotion regulation in order to be successful (Frith & Singer, 2008). Given this, certain social skills can be assumed to be fundamental in order to make competent decisions (Rilling & Sanfey, 2011).

Strategic decisions challenge firms continuously; in fact they determine an organization's long term prospects and viability as well as shape its day to day conduct. As such they require an optimal mix of managerial insights, talent, professionalism, timing, flexibility, and a comprehensive understanding and grasp of ever volatile organizational task environments. These strategic decisions are, in the case of complex organizations, the product of shared leadership activities emanating from the joint cognitions, capabilities, and interactions of Top Management Teams, and these are molded into or form specific strategic behaviors (Hambrick, 2007). Strategic choices have a crucial impact on corporate long term performance (Geletkanycz and Hambrick, 1997), and hence on company survival. Organizational effectiveness is closely intertwined with the effectiveness of strategic decisions made by its Top Management Team (Eisenhardt, 1999; Simons et al., 2000).

Enhancing decision quality requires attention to detail considering all relevant issues and not overlooking anything significant. Attention to detail requires awareness of the two aspects of decisions, the technical and the non-technical soft aspects. Enhancing decisions could therefore be a complex, time-consuming task that, in addition, requires extensive knowledge and skills (Rausch & Anderson, 2011). Better aptitudes of strategic

decision and communication results from management capacity, perception of risk and seizing opportunities, and is reflected in the ability to develop personal complicities of solidarity, trust and understanding of weaknesses. Organizational performance is strongly influenced by better communication and strategic decision capacities of the manager (Felício, Couto & Caiado, 2014). This study concludes that greater knowledge, skills and experience of employees and those in leadership contributes to better decisions, which in turn leads to improved organizational performance. This study presents a major contribution to the literature by confirming the interrelationship and influence of quality of decisions on the relationship between human capital and firm performance.

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