

THE EFFECT OF HUMAN CAPITAL MANAGEMENT PRACTICE ON FIRM PERFORMANCE: THE MODERATION ROLE OF ORGANIZATIONAL IDENTIFICATION

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ABSTRACT

The purpose of this study was to examine the effect of human capital management practices on firm performance and analyzing the moderation role of organizational identification. The quantitative research approach was adopted using 234 valid questionnaires that were filled by employees who are working at the main office and selected branches of Ethio-telecom Addis Ababa, Ethiopia. To do so, stratified and simple random probability sampling techniques were used. To confirm the factor structure of the observed variables, CFA was applied and SEM was used to test the hypothesized relationship using SPSS v.25, and AMOS v.23 software. The results of structural equation modeling revealed that HCM practices specifically learning capacity, leadership practices, workforce optimization, and knowledge accessibility, positively affect firm performance, while organizational identification positively moderates this relationship. This implies, applying proper human capital management practices positively affects firm performance. The better the insight of employees' organizational identification the more the relationship amongst the study variables. The implications and suggestions for future research have also been discussed.

1. INTRODUCTION

Currently, the notions of human capital (HC) getting wider attention as the business competition necessitate firms to use firm-specific resources, like employees' skill, knowledge, and capabilities. Literature showed that talented employees are the most crucial resource to sustain a firm competitive advantage (Abualoush et al., 2014; Salau et al., 2016; Siddiqui, 2012). An economist and Nobel prize-winner Theodore Schultz initially articulated the notion of human capital (HC) in the early 1960s as a means of explaining the importance of investing in learning on a national scale (Wright et al., 2014). To date, there is a variability of ideas and definitions related to the HC concept in different disciplines including human resource management (HRM), economics, accounting, organizational behavior, and leadership, and intellectual capital. Nevertheless, regardless of the trendy use of the term HC amongst business consultants, researchers, and practitioners, the HC literature leftovers fragmented with research's conflicting in the conceptualization of HC (Hassan, 2016; Unger et al., 2011). The concept of human capital is directly related to the added value individuals offer for organizations. It has become a revolutionary means of managing people, handling them as assets than costs (Salau et al., 2016). Wright et al. (2014) posited that the human capital aspect is the source of competitive advantage. This is because competitive advantage can only be boosted with the help of the knowledge, skill, and competency of their workers (Ling & Jaw, 2011; Siddiqui, 2012). According to Liu et al. (2011), there is a passionate emphasis nowadays on the competencies of employees and organizations, thus are moving towards learning organizations in which the individual employees are empowered and are provided with chances to enhance their career paths.

The prevalence of human capital management practices (HCMPs) aims to increase in business disciplines as organizations have become more concentrated on managing intangible assets, as a contributor to shareholder value and meeting organizational goals (Jehanzeb & Mohanty, 2018; Odden, 2011). Hence, all of this be contingent on individuals, and getting the best from individuals depends on the considerate perspective of what motivates them to perform, to run that extra mile, and to give the best service. Deprived of this information,

managers are making decisions mainly in ignorance of the effect these decisions might have on the performance of individual employees.

Prior researches have focused on the importance of human capital management (HCM) in providing sustainable advantage (Abualoush et al., 2014); molding employee positive behavior (Vij & Sharma, 2014), enhance HR retention (Jacobson & Sowa, 2015), facilitate innovativeness (Rodrigues et al., 2010). Moreover, HCMP enhances entrepreneurial orientation (Javalgi & Todd, 2011), firm performance (Jamal & Saif, 2011; Wright, 2011), Organizational Performance (Ajisafe et al., 2015), Perceived organizational support, and employee engagement (Dai & Qin, 2016), engagement and retention (Hassan, 2016), business strategy and firm performance (Lee et al., 2010), organizational competitiveness (Takeuchi, 2013), psychological empowerment (Aydognmus et al., 2018), employees' organizational citizenship behavior (Newman et al., 2016). However, other studies indicate that HC practices may elicit greater levels of stress, exhaustion, burnout, and job intensification, which are features that negatively affect a firm's financial well-being (Lee et al., 2008; Truss et al., 2013). Likewise, Maditinos et al. (2011) conclude that greater human capital competence was not found to be a statistically significant association with employee involvement and financial performance. On top of this, there is almost no prior research to test ORI as a moderator role on the association between HCMPs and firm performance. Ethiopia as a country has a massive gap with regard to HCM and development. For instance, according to the global human capital report (GHCR, 2017), the country is ranked 127th out of 130 countries followed by Senegal, Mauritania, and Yemen (GHCR, 2017). According to UNDP (2019), Ethiopia ranked 135th out of 157 countries in terms of HCM. HDI Ethiopia is one of the poorest countries in the world ranking 173rd out of 189 countries and its human HDI is 0.485 in 2018 and an average of 1.69 from 1990-2018 (Jamal & Saif, 2011). Thus, the country problem became a mirror image for different public and private sector organizations, including the telecommunication service.

Emperor Menelik II announced a telecommunication service in Ethiopia in 1894 when the structuring of phone line from Harar to the capital city, Addis Ababa. Since then, Ethio-telecom is the only government-owned Telecommunications Services industry in Ethiopia. However, currently, there is an initiation towards allowing private Telecommunication companies from within and outside the country. As of August 2020, Ethio-telecom has about 22,288 employees across all of its locations. The rampant financial growth of Ethio-telecom is because of the growing interest of the public in telecom service with the only option. Despite this, some employees lack supportiveness and active response to the demands of the customers (Kiros, 2015). Moreover, employees lack a sense of commitment and concern towards their job, which clashes intending to deliver proper and quality services to its customers. Therefore, a lot is needed to research the issues and consequences of HCM. This study argued, workers with the right knowledge, skill, and competence bring creative and innovative ideas that in turn increase the firm performance. I, therefore, conduct an empirical study to examine the role of HCMPs on employee satisfaction and job performance, with a moderation role of organizational identification. To wrap up, the literature showed that talented employees are the most crucial resource to sustain a firm competitive advantage. The prevalence of HCMP aims to increase in business disciplines as organizations give more concern to managing intangible assets. Therefore, getting the best from individuals depends on the considerate perspective of what motivates them to perform, to run that extra mile, and to give the best service. Ethiopia as a country has a massive gap in terms of HCM. and development. The country's problem became a mirror image for different public and private sector organizations, including the telecommunication service.

2. LITERATURE REVIEW AND HYPOTHESIS

2.1 Human capital and Human Capital Management

HC refers to the knowledge, skills, education, capacity, and attributes of individuals that affect their productive capacity and earning potential (Jamal & Saif, 2011). HC signifies the employee's practical knowledge, mental ability, enthusiasm, consistency, innovativeness, dedication, loyalty, ingenuity, the capability to work in a team, and adeptness to reach the company desired objective (Barney & Mackey, 2016; Hossain & Roy, 2016). The notion of human capital has lately received attention from many academic scholars (Franklin et al., 2014; Jacobson & Sowa, 2015; Wright et al., 2014). They hypothesized that it signifies the human factor of the company, the combined intelligence, skills, and know-how that gives the company its distinctive character. According to Yen (2013), human capital is the skills, knowledge, competencies, and qualities embodied in individuals that enable the creation of personal, organizational, and national social and economic well-being. HCM refers to an integrated effort to develop and manage human abilities to meet a significantly high level of performance (Wright et al., 2014). HCMPs are a set of practices that are dedicated to organizational needs to deliver specific competencies (Baron & Armstrong, 2007). It is a method of individual employee staffing that recognizes people as assets (human capital) whose existing value can be dignified and whose future value can be improved through investment (Baron &



Armstrong, 2007; Yen, 2013). According to Salau et al. (2016) HCM is about the process of obtaining, training, developing, rewarding, and retaining staff to meaningfully add to the persistent being of organizations. Studies have shown HCM as an organized way of recognizing and enhancing the prevailing competencies and capabilities of individual employees to attain firm goals, especially in knowledge working industries (Abualoush et al., 2014; Salau et al., 2016; Sharma & Taneja, 2018).

Research has also shown HCM's positive function in improving the organization's efficiency (Hassan, 2016; Wright et al., 2014). It is the main element in enhancing quality, success, and competitiveness (Siddiqui, 2012). Trained and productive workers are one of the most dynamic resources for understanding organizational objectives as it plays an important role in improving or decreasing the productivity of the company. Various literature often indicates that HCM is measured using different methodologies; however, researchers from across the disciplines have not been able to quantify HCM using different methodologies. This study focuses on drivers such as workforce optimization, leadership practice, information access ability, and learning capacity, a model tested by Bassi and McMurrer (2008), Jamal and Saif (2011), and Abualoush et al. (2014), in the identification of HCMP drivers. Leadership practice as a component of HCMP was chosen, which signifies the partnership between leaders and followers, where the leader aims to establish a positive effect on followers that encourages them to be dedicated and contribute to the achievement of the company goals (Bassi & McMurrer, 2008; Northouse, 2016). Leadership has inspiring encouragement in relation to HCM, in which leaders give meaning and leaders support the innovation and adaptation of employees. The efficacy of the ability of managers and leaders to enhance HC companies through collaboration, feedback, efficiency, trust-building activities, and the upholding of basic organizational values. In addition, Workforce optimization, which is a strategic imperative of HCM that emphasizes the productivity, quality, and success of a company employee (Ajisafe et al., 2015; Bassi & McMurrer, 2008). The success of the company in maximizing its employees' efficiency by growing and retaining human capital (knowledge, skills, competencies, abilities, etc.). To do so, businesses aim to optimize their workforce not only to achieve business objectives through inclusive HCM systems but also for profitability and long-term survival.

Moreover, Learning capacity is the manner in which persons, groups, and organizations are able to improve and understand, learn and use information (Ajisafe et al., 2015; Bassi & McMurrer, 2008). Knowledge accessibility, on the other hand, is the degree of the ability of a company to make knowledge and ideas freely available to workers, which encourages the desired objectives of the collaboration. It is the general capacity of organizations to acquire technologies, adapt, and constantly evolve in order to match with the dynamic environment (Bassi & McMurrer, 2008; Jamal & Saif, 2011). Simply said, it is the extent of a company's cooperation and efforts to share information is the availability of knowledge. Therefore, Organizations' strengths and weaknesses in HCM can be evaluated by checking the application and effectiveness of each of the HCM practices that fall within the above driver classes. Overall, advancement or failures in performance can be tied directly to advancement or failures in HCMPs.

2.2 Firm performance

Firm performance is a very important construct, in business management, and strategic management studies, across the world, and often it is used as a criterion variable (Selvam et al., 2016). Despite its importance, there is barely any agreement about its definition, dimensionality, and measurement, which limits advances in research (O'Sullivan & Abela, 2007; Selvam et al., 2016). Most commonly, firm performance could be defined as the accumulated non-financial and financial value added by employees to the contribution of meeting organizational goals (Kundu and Kumar, 2017). In other words, firm performance is an indicator of a firm's capability to attain its intended goals. According to Zehir et al. (2016), most of the common financial measures are: revenue, return on assets, return on equity, profit margin, capital adequacy, sales growth, stock prices, and liquidity ratio, among others. Zehir et al. (2016) posit, contingent on the business on which the company functions, some financial indicators will be more expressive than others. On the other hand, non-financial measures contain indicators of success, like market share, satisfaction, quality, and effectiveness of a market (Ajisafe et al., 2015; Zehir et al., 2016). With skilled and competent employees, a company can get a competitive advantage over its competitors. Thus, in this study, I used both financial and non-financial performance to assess the performance of the firm. It is argued that firm performance could be improved if there are proper human capital practices.

2.3 Organizational identification

Organizational identification (ORI) refers to the alliance between individual and shared identities, results in a sense of harmony between the individual employees and their organization, and the explanation of the self and shared in alike terms (Riketta, 2005). Ashforth et al. (2008) explained ORI as perceived coherence between self and organization. It is the degree to which the workers incorporate the organization in her or his self-concept, making a working relationship. ORI focuses on the perception of oneness within the organization and is profoundly



rooted in social identity theory the framework (Eptropakl, 2013). Social identity theory suggests that a person has a desire for a constructive individual identity (Pearce, 2013) and this need compels her or him to struggle for achieving a constructive social identity because the latter is the mechanism for getting the former.

The business interaction between members and their organization can be represented as an exchange relationship from a psychological perspective. The theory of social exchange may explain this (SET). SET argues that particular precursors of the work environment contribute to relationships, referred to as social exchange relationships (Cropanzano & Mitchell, 2005). Henceforth, if employees see their company embracing a great deal, they may have higher ORI, although they may have a lower degree of ORI if employees see problematic organizational management. Hence, in this study, it is argued that the existence of organizational identification can positively affect the performance of the company. This is because when employees have a shared identity, major views about self and others, sense true feeling of membership, and valuable connections, then this in turn positively facilitates to have initiation and improved performance.

3. THE ROLE OF HCM PRACTICES ON JOB PERFORMANCE

Several empirical and theoretical prior studies have related HCM practices on diverse kinds of firm performance. Hassan (2016) findings suggest that HCM practices such as boosting positive discretionary behavior building a better work environment, and fair recognition and reward had essentially help in improving employee engagement and retention. Ajisafe et al. (2015) studied the effect of human capital management on performance, with an emphasis on the banking sector. The results from the analysis showed that HCM has a positive significant influence on performance. Lee et al. (2010) conclude that there is an adjacent association between HRM practices, business strategy, and firm performance. Crook et al. (2011) argued that organizational managers should invest in plans that enhance and maintain firm-specific human capital. Doong et al. (2011) examined examines the influence of communal, monetary, and human capital on the financial performance of Taiwanese companies, and found that communal capital, has a positive influence on a firm's value. Similarly, human capital, like research and development, has a significant positive influence on financial performance (Doong et al., 2011).

Moreover, a number of earlier studies examined the impacts of HCM practices on different types of firm performance such as on competitive advantage (Taie, 2014), change and innovation (Jamal & Saif, 2011), employee outcomes, and psychological empowerment (Moradi and Dashti, 2016), employee positive behavioral outcomes (Vij and Sharma, 2014), financial competitiveness (Lin et al., 2017). Despite the extensive studies on the association between HRM and performance, almost no empirical studies have made ORI a moderator between HCM and FIP. For the purpose of this research, leadership practice, knowledge accessibility, workforce optimization, and learning capacity have been used as drivers of HCMP. Several scholars have recognized that Leadership practice is the main driver of HCM. Leadership practice deals with all-inclusiveness, communication, and creating continuous learning ethos to attain business success, and it was detailed that the skilled leaders execute business strategy and such leaderships influence the HCM, which in turn affects organizational performance and sustainability (Ajisafe et al., 2015; Crook et al., 2011; Northouse, 2018). On the other hand, the study conducted by Ajisafe et al. (2015) and Rasula et al. (2012) and conclude that the strategies of knowledge accessibility and learning capacity as elements of HCM, influences inspire intelligent choices, facilitates personal development, and helps to leverage their competencies in the best possible way for the attainment of competitive advantage, and improved organizational performance. Conversely, some other studies showed that HC practices may cause greater levels of stress, exhaustion, burnout, and job intensification, which are features that negatively influence a firm's financial well-being (Lee et al., 2008; Truss et al., 2013). On the other hand, the organization's success in optimizing the performance of its staff through improving and knowledge, skills, competencies, and abilities enhance organizational outcomes, like firm performance and sustainability (Delery & Roumpi, 2017; Koufteros et al., 2014).

To this end, social exchange theory (SET) and reciprocity principle can be used as a basis of research on HCM and firm performance relationship (Dai & Qin, 2016; Zhong et al., 2016). SET claims that social behavior and human relationships are rooted in an exchange process (Cropanzano et al., 2017). This theory argued that employees who accept economic or socio-emotional remuneration from their organization feel obligated to respond (Zhang et al., 2014). Hence, if the firm tried to invest and gives attention to HCM practice employees would perform their job with felt duty and enthusiasm, which in turn improves firm performance. The resource-based view (RBV) states that an organization improves competitive advantage, not only by acquiring but also by developing, and effectively deploying its human, physical; and other organizational resources in a way that could add unique value and are hard for competitors to imitate (Barney & Mackey, 2016; Newbert, 2007). The RBV proposes that organizations should look within their physical and intellectual, as a base of enhancing their performance and to keep their competitive advantage.



Hence, I argued that the organization's success in optimizing the performance of its staff (workforce optimization) through improving and knowledge, skills, competencies, and abilities enhances organizational outcomes. Taking into account the discussion above, and the underpinning of SET and RBV the following hypotheses are proposed.

H1: Leadership practice will have a direct positive effect on firm performance

H2: Workforce optimization will have a direct positive effect on firm performance

H3: Learning capacity will have a direct positive effect on firm performance

H4: Knowledge accessibility will have a direct positive effect on firm performance

4. THE MODERATION ROLE OF ORGANIZATIONAL IDENTIFICATION IN THE RELATIONSHIP BETWEEN HCM AND FIRM PERFORMANCE

In this study, it is argued that ORI enhances the relationship between HCM practices and firm performance. ORI refers to the extent to which an individual defines her or himself as having the same characteristic features and values that she or he trusts to define the organization (Riketta, 2005). Organizational identification includes two primary motives, these are the need for self-categorization, which is the extent to an employee's perceive as fitting to the organization, and the requirement for self-enhancement (moods of pride for being a member of the organization (Smidts et al. 2001; Zhao et al., 2014). Whilst people undertake the value and desires of an enterprise, they expand decision-making premises that supplement the value and intention-based premises held by a means of an organization (Ashforth et al., 2008).

Accompanying this view, Piccoli et al. (2017) suggest that people exert effort to categorize themselves with targets to notice themselves as alike to an attractive aim, which in turn enhances the organizational job performance. A noticeable component of research has focused on the contribution of organizational identification and various organizational and individual outcomes (Ashforth et al., 2008; Newman et al., 2016). Prior researches have revealed that organizational identification has substantial effects on work attitudes (e.g., organizational commitment, job satisfaction, and intention to leave) and behavioral results, like extra-role and in-role performance (Callea et al., 2016; Liu et al., 2011; Riketta, 2005). Since these consequences are what 'any modern HCM would hope to increase among its workforce' (Kurtessis et al., 2017), continuous research on organizational identification is vital for executing effective HCM. Callea et al. (2016) examined the relationship between organizational identification, organizational citizenship behavior, and task performance, and found that the effect of job insecurity on organizational citizenship behavior and task performance was mediated by ORI. Similarly, Liu et al. (2011) proved that ORI has a positive effect on worker performance within the organization. Newman et al. (2016) posited that ORI mediates the relationship between HRM on, workers' organizational citizenship behavior.

Based on the social identity theory, which claims that an individual has a want for a positive individual identity and this wish induces her or him to strive for attaining a positive social identity (Hogg, 2016), could have a favorable impact on organizational outcomes. Thus, the more a person identifies with an organization, the better will be the organization's viewpoint as self-defining and turns in the best interest of the organization (Hogg, 2016; Hornsey, 2008). Therefore, as social identity is the self-conception and related mental processes and social views in intergroup relations and group processes, hence this will positively affect their performance. In other words, if there is a better perception of organizational identity, it becomes a positive contributing factor to the relationship between HCM practice and firm performance. With this, the following hypotheses are forwarded:

Hypothesis 2: Organizational identification of work environment will moderate the positive relationship between HCM practices and firm performance

Based on the previous discussion, the proposed research framework is presented in the following diagram, which suggests the relationship between HCM practice, firm performance, and organizational identification.



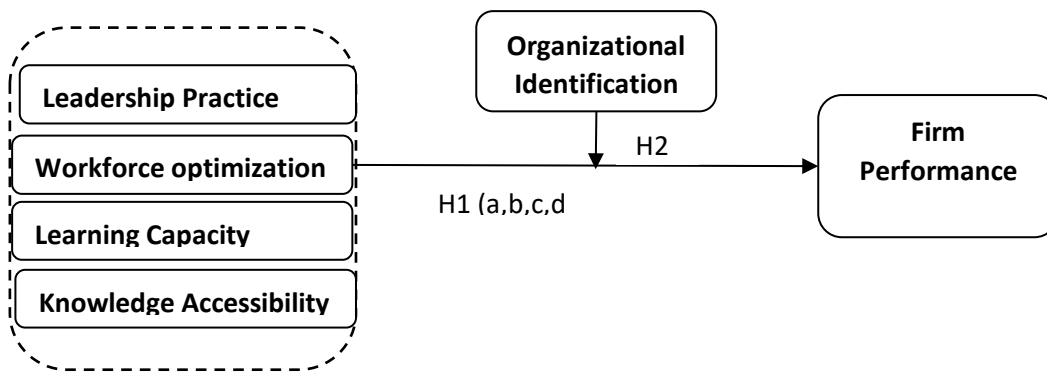


Fig 1: Research Framework

5. METHODS

The quantitative cross-sectional survey research approach was applied to this research. It involves the systematic collection of measurable data, the statistical study of the data, and the establishment of an analytical framework. This approach enables the opportunity of providing statistical confirmation of the theoretical model and its respective variables. Further, following the recommendation of Mackenzie and Podsakoff (2012), to reduce the risk of common method variance, I designed the procedure of two-source (i.e., subordinates and supervisors) data collection to lessen the risk of common method variance. I gathered data from 28 supervisors and their 206 subordinates in one of the biggest government-owned telecommunication providers (Ethio-telecom) in Addis Ababa, Ethiopia. Data were collected from the main office and 16 randomly selected branches operated in Addis Ababa. The unit of analysis for this study was team-level analyses, which are the branch manager, supervisor, and customer service supervisors. This is because team-level analysis possesses some influence of organizational level context from above and the individual-level view from below, towards the research constructs of HCM, ORI, and FIP. This study makes use of a simple random and stratified sampling method. Simple random sampling is used to choose the Ethio-telecom branches to be included in the study and stratified is used to incorporate both subordinate and supervisors as respondents of this study. Permission was received from the CEO of the company and any other concerned body, following an explanation in writing concerning the function of the research, the projected methods for the gathering of data, and the condition of a copy of the research questionnaire. A favorable opinion was gained from the relevant bodies of the main office and the respective branches. Further, respondents were informed about the agreement, confidentiality, anonymity, and the right to withdraw from participation. Moreover, respondents were provided with a self-addressed, envelope into which the completed questionnaire be inserted and the envelope was sealed, for collection by the researcher from a pre-defined collection point. Of the 38 supervisor questionnaires and 282 subordinate questionnaires, I distributed, 32 supervisor questionnaires (84.22% response rate), and 223 subordinate questionnaires (79.07% response rate) were returned. After discounting 21 invalid data, of which 4 supervisor questionnaires and 17 subordinate questionnaires were invalid, the valid sample was comprised of **234** supervisor-subordinate.

5.1 Survey Instruments

The questionnaire instrument was adapted from existing literature that had proven reliable and valid in previous research. The survey questionnaire comprises demographic information gender, age, the highest level of education attained, and job position, HCM practices, firm performance, and organizational identification.

5.2 Human capital management

Literature reveals that HCM is measured by using different methodologies, and still, scholars have not been able to come up with a common framework for its measurement (Bassi & McMurrer, 2008; Fernando et al., 2020; Jamal & Saif, 2011; Salau et al., 2016, Royal & Donnell, 2008). For the purpose of this research, the following basic sets of measures are selected. To measure leadership practice, this study will use the measurement instrument, developed by Bassi and McMurrer (2008), which is 7 item scale. The scale included statements such as “managers are open and honest in their communications” and “managers provide constructive feedback, and inspire confidence”. To measure, respondents were asked to indicate their feelings on a 5-point Likert –type scale (1 = strongly disagree, 5 = strongly agree). The higher the score show higher the ability in the management of HCM of leadership practices.



For measuring learning capacity, this study applied to use the measurement instrument, developed by Bassi and McMurrer (2008) and Fernando et al. (2020). Which is 5 item scale, incorporates. The scale encompassed statements such as “Training is practical and employees receive training on work-related Technologies” and “employees have formal development plans and career goals in place”. Respondents were asked to indicate their feelings on a 5 -point Likert –type scale (1 = strongly disagree, 5 = strongly agree). The higher the score show higher the ability in the management of HCMP of learning capacity. Besides, to measure knowledge accessibility, a scale contains 4 items adapted from Bassi and McMurrer (2008) and Fernando et al. (2020). The questions include “employees have the information they require to do their jobs” and “Best practices are improved and shared and circulated across departments”. To measure, respondents were asked the extent of their agreement with each item on a 5-point Likert scale (1= strongly disagree, 5= strongly agree). The measurement scale for Workforce optimization was adapted from Bassi and McMurrer (2008). Example of items includes “employees have access to the materials and technologies they need to be effective” and “there are well-defined procedures exist to get work done”. The measurement is a 5-item scale, respondents have indicated the extent of their agreement with each item on a 5-point Likert scale (1= strongly disagree, 5= strongly agree). The Cronbach’s alpha for this scale is given in table 1 below.

5.3 Organizational Identification

This measure is about identification whereby persons view themselves about the membership to a particular organization. Organizational identification instruments were adapted from Edwards and Peccei (2007), which are the 6-item scale. An example of the item includes “my employment in this organization is a big part of who I am” and “I share the goals and values of my organization” Response options ranged from 1 to 5, where 1= strongly disagree and 5= strongly agree.

5.4 Firm performance

Firm performance was measured utilizing an instrument adapted from Koufteros et al. (2014) and Teeratansirikool et al. (2013), which are 12-item scales. Example instrument includes Growth of sales or revenues, return on investment, market share, profit margin, market development, the quality of products and services, employee productivity, and employee loyalty and commitment or to the firm. Respondents were asked to point out changes in the performance of those indicators in the last 3 years on a 7-point Likert scale (1= decreased tremendously 7= increased tremendously).

Table 1. Measurement scale of variables

Variables	Authors	Number of items	Cronbach Alpha of adapted scale
Independent Variables			
leadership practice	Bassi and McMurrer (2008),	7	.79
learning capacity	Bassi and McMurrer (2008); Fernando et al. (2020).	5	.80
knowledge accessibility,	Bassi and McMurrer (2008); Fernando et al. (2020).	4	.75
Workforce optimization	Bassi and McMurrer (2008),	5	.83
Moderating variable			
Organizational Identification	Edwards and Peccei (2007)	6	.84
Dependent Variable			
Firm Performance	Koufteros et al. (2014) and Teeratansirikool et al. (2013)	12	.75

The questionnaire for employees was developed in both English and Amharic (Ethiopian official language) through the translation back-translation process. The processes of back-translation used for this study are as follows. A person translated the original English questionnaire into Amharic. A second person, who had not seen the original English version, translated the questionnaire back to English. Two other individuals who are professionals in the English language reviewed the original and back-translated version to see if the original content of the question was reserved. The Amharic version was then modified and corrected. Besides, to assure that the questions could be properly understood by respondents and effortlessly answered by them, the preliminary survey questionnaire was prudently pre-tested. Accordingly, an initial draft of the questionnaire was conversed with academic scholars to evaluate the simplicity, clarity, and validity of the content. Next, a pilot study was too conducted with a group of employees and managers of different officialdoms, where their feedbacks were used to



develop the comprehensiveness, clarity, and relevance of the instruments. To control for common method bias, this research will adopt several techniques as proposed by Mackenzie and Podsakoff (2012). From procedural remedies, of two-source (i.e., subordinates and supervisors) data collection, different techniques were applied, which include, temporal separation by presenting a time lag between the measurement of the predictor and criterion variables; counterbalancing question order, in this case, this research the items of respective scales were randomly ordered to observe the respondents' consistency motive. Moreover, the standard questionnaires are designed to minimize task difficulty so that respondents would be more possible to respond precisely. Additionally, to maximize respondent motivation and to increase the prospect of answering accurately, a cover story was provided, upholding the purpose of the research and clearing up how the information would be used and how the organization would be benefited. Also, to avoid respondents' socially desirable bias, the respondents were assured that their responses would remain anonymous.

6. RESULTS AND FINDINGS

CFA was assessed by examining standardized factor loadings and modification indices. There were 6 latent variables in this research: HCM derives; leadership practice, learning capacity, knowledge accessibility, Workforce optimization; Organizational Identification; and Firm performance. Confirmatory factor analysis (CFA) was performed using AMOS v.23 with maximum likelihood estimation to spot the pattern through which every measure loads on a specific factor (Hair et al., 2019; Kline, 2010). Then, the structural regression model was utilized to test the proposed model. The test of measurement model different fit measures were utilized to examine the model fit, which includes the CMIN/DF /chi-square, goodness-of-fit index (GFI), comparative fit index (CFI), and Tucker Lewis Index (TLI) and root mean square error of approximation (RMSEA). Table 2 shows the measurement model fit statistics. The chi-square ($\chi^2/d.f.$) result is a value is 2.471 which is less than the generally suggested value of 3, which strongly indicates a good fit for the model. The GFI, CFI, and TLI values are above the universal cut-off for the goodness of fit (0.90). Further, The RMSEA is 0.073, indicating an acceptable model fit (Kline, 2011). Hence, the measurement model looks to signify the data quite well.

Table 2. Measurement model fit statistics

Table 2: Results of confirmatory factor analysis							
CMIN	DF	CMIN/DF.	GFI	RMR	CFI	TLI	RMSEA
7.12	3	2.471	0.975	.009	0.956	.946	.073

6.1 Convergent Validity and Discriminate Validity

Before examining the associations of the variables, it is significant to scrutinize whether the variables are properly measured what they are required to measure. To do so, this research examined the convergent and discriminate validity. Convergent validity refers to the capability of some measures to have convergent validity when they are greatly correlated with different measures of related constructs (Hair et al., 2014). The results revealed as convergent validity was tested by assessing the degree of factor loadings of observed variables on the proposed latent variables or constructs. In convergent validity, the average variance extracted (AVE) must be is greater than 0.5 and above 0.5 (Hair et al., 2014; Kline (2011). Table 4 revealed Average Variance Extracted (AVE) exceeded 0.5 and the factor loadings for all the items were above 0.5, as recommended by (Hair et al. 2019).

Table 3. Loading, average variance extracted, and its square root

Constr ucts	Latent Variables	Indicator Variables	SL	Square root SL	Sum of the squared SL	Number of Indicators	AVE	The square root of AVE
HCMP	LP	LP1	0.743	0.552	3.748	7	0.535	0.731
		LP2	0.749	0.561				
		LP3	0.723	0.523				
		LP4	0.669	0.447				
		LP5	0.789	0.622				
		LP6	0.751	0.564				
		LP7	0.592	0.479				
LC	LC	LC1	0.774	0.599	2.541	5	0.508	0.713
		LC2	0.812	0.659				
		LC3	0.653	0.426				
		LC4	0.592	0.350				
		LC5	0.712	0.507				
KA	KA	KA1	0.743	0.552	2.091	4	0.523	0.723
		KA2	0.803	0.645				
		KA3	0.641	0.411				



		KA4	0.695	0.483				
	WO	WO1	0.669	0.448	2.681	5	0.536	0.732
		WO2	0.693	0.480				
		WO3	0.745	0.555				
		WO4	0.802	0.643				
		WO5	0.745	0.555				
ORI	ORI	ORI1	0.779	0.607	3.309	6	0.552	0.743
		ORI2	0.786	0.618				
		ORI3	0.703	0.494				
		ORI4	0.689	0.475				
		ORI5	0.691	0.477				
		ORI6	0.799	0.638				
FIP	FIP	FIP1	0.714	0.510	6.119	12	0.510	0.714
		FIP2	0.709	0.502				
		FIP3	0.596	0.355				
		FIP4	0.687	0.472				
		FIP5	0.689	0.475				
		FIP6	0.819	0.671				
		FIP7	0.719	0.517				
		FIP8	0.709	0.502				
		FIP9	0.617	0.381				
		FIP10	0.801	0.641				
		FIP11	0.681	0.464				
		FIP12	0.793	0.629				

Note: SL=Standardized Loading, AVE=Average Variance extracted, HCMP= human capital management practice, LP=leadership practice, LC=learning capacity, KA= knowledge accessibility, WO=work force optimization, ORI=identification, FIP=firm performance

As it can be seen in Table 4 it has been found that the correlation between the values of the independent latent construct is less than 0.7 proved that of multicollinearity problem among the exogenous variable is not suspected (Hair et al., 2019). It has also been found that the variance inflation factor (VIF) value for each latent construct less than 5 showed the absence of multicollinearity problem between the exogenous variables.

Table 4. Discriminant Validity of Constructs

Latent Variables	1.	2.	3.	4.	5.	6.
LP	0.731					
LC	.339**	0.713				
KA	.119**	-.212**	0.723			
WO	.596**	.542**	.411**	0.732		
ORI	.510**	.235**	.417**	.413	0.743	
FIP	0.488	.399	.519	.563	.502	0.714

Note: LP=leadership practice, LC=learning capacity, KA= knowledge accessibility, WO=work force optimization, ORI=identification, FIP=firm performance

On the other hand, discriminant validity denotes the extent to which a specific latent construct is different from other constructs (Byrne, 2010). The square root of the Average Variance Extracted of each variable should be greater than the correlations between latent constructs, suggesting adequate discriminant validity (Byrne, 2010). As depicted in Table 5, the diagonal values are larger than the other values of the columns and rows in which they are situated, confirming the discriminant validity of the model (Byrne, 2010; Kline, 2011). With regard to the demographic information of the respondents. The sample of the research consists of 67.95% (159) of men and 32.05% (75) female respondents. The majority (i.e. 83.8%) of the respondents are below 35 years old. Besides, most of the respondents were first degree holders (82.6%) and (10.4%) and 7% were postgraduate degrees and diplomas respectively. The largest participants of the study have been working in Ethio-telecom for 4 to 10 years (54.2%), (35.7%) of participants in the current working area below 4 years, and the remaining (10.1%) had more than 10 years of experience, their average summative experience is about 5 years.



Table 5: Mean standard deviation and correlations among the study variables

Variables	1.	2.	3.	4.	5.	6.	Mean	S.D
1. LP	(0.79)						3.58	1.03
2. LC	.339**	(0.80)					3.69	1.08
3. KA	.119**	.212**	(0.75)				4.10	1.35
4. WO	.596**	.542**	.411**	(0.83)			3.38	1.08
5. ORI	.510**	.235**	.417**	.413	(.84)		3.56	1.12
6. FIP	0.488	.399	.519	.563	.502	(0.75)	3.79	1.29

** $P < 0.01$

Note: the instruments were adapted from earlier studies that were proved valid and reliable, but with the consideration that the context could be different, I assess the Cronbach. Thus Cronbach's Alpha (α) is represented in diagonals was (Cronbach Alpha) 0.89. Hence, the reliability of the scale turned out to be at a high level.

Table 5 shows the observed variables, the mean of all data was in the range of 3.38 to 4.45. The mean of leadership practice was 3.58, learning capacity 3.69, knowledge accessibility 2.89, workforce optimization 3.45, organizational identification 2.14, and firm performance 3.10. With regard to the correlation values, some of the study variables had a moderate positive association and remaining with a low positive association with each other (ranges from 0. 0.119 to 0. 0.596. $p < 0.01$). The prior stated hypothesis was tested using the SEM technique. It was proposed in the study that HCM practices (leadership practice, learning capacity, knowledge accessibility, and workforce optimization) positively affected firm performance. Further, it was argued that the existence of organizational identification can strengthen the relationship between the stated dependent and independent variables of the study. In agreement with the hypothesis, the results of this study (see in Table 6) showed that all the independent variables namely leadership practice ($\beta = .491$, $p < .01$), which was able to explain 49.1% of the observed variation in firm performance; learning capacity ($\beta = .445$, $p < .001$), which explicates 44.5% of the observed variation in firm performance; knowledge accessibility ($\beta = .206$, $p < .01$) and workforce optimization ($\beta = 0.329$, $p < 0.01$), which expound 20.6% and 32.9% of firm performance. Thus, all the hypothesized relationships between the study variables are supported. Besides H2 was fully supported.

Table 6. Results of the structural model

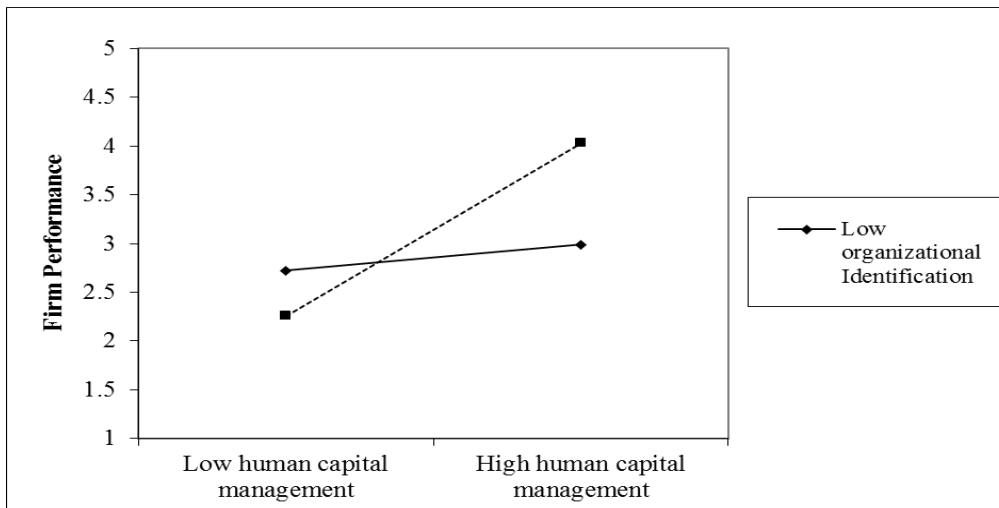
Hypothesis	Relationship	Beta Value	Standard Error	T-Statistic	P-Value	Decision
H1	LP → FIP	0.491	0.048	10.23	**	Supported
H2	LC → FIP	0.445	0.041	10.85	**	Supported
H3	KA → FIP	0.206	0.037	5.56	**	Supported
H4	WO → FIP	0.329	0.046	7.15	**	Supported
H5	LP* ORI → FIP	0.225	0.035	6.43	**	Supported
H6	LC*ORI → FIP	0.199	0.032	6.23	**	Supported
H7	KA*ORI → FIP	0.231	0.045	7.45	**	Supported
H8	WO*ORI → FIP	0.203	0.031	6.55	**	Supported

Note: ** $p < 0.01$

To test the moderation hypothesis, the structural equation modeling technique was applied using AMOS v.23, with maximum likelihood estimation as a structural equation modeling permit for measurement errors in the statistical model. To test the moderator effect is examined, the structural equation modeling technique was applied using AMOS v.23, with maximum likelihood estimation. To do so, whether a significant relationship is found between the interaction term and the dependent variable is examined¹. The results of the moderation analysis are stated in Table 6 (as H5, H6, H7, and H8).

¹ To test the interaction effect all items related with each HCM construct were summed and divided by the pertinent number of items to arrive at a summary indicator of the respondent's perception of the respective HCM practice.





Additionally, as we can see from the result of the interaction plot in figure 1, it showed that the ORI moderates the relationship between HCM practice and Firm performance ($\beta=0.2145$, $p < 0.01$). This means that the better the ORI, the more employee will be the firm performance. Overall, hypothesized relationships of H1, H2, H3, H4, H5, H6, H7, and H8 are all supported.

7. DISCUSSIONS

The purpose of this study was to examine the effect of HCM practice on firm performance, and ORI was treated as a moderator. The study revealed that the drivers of HCM practices namely leadership practice, learning capacity, knowledge accessibility, and workforce optimization have a positive effect on firm performance in the context of the Ethiopian corporation (Ethio-telecom). This indicates the existence of appropriate HCM practices systems in the workplace gives robust signals to their employees that they are appreciated, valued, and acknowledged. For instance, according to (Wright et al., 2014). HCM interventions emphasize maximizing proficiency in an organizational context where the leadership practices are acknowledged as one of the cornerstones that leads to better firm performance. The finding of this study is consistent with the results of prior research (Ex- Jamal & Saif, 2011; Vij & Sharma, 2014). Likewise, the study revealed learning capacity affects firm performance. Learning capacity focuses on the way that individuals, groups, and organizations are in way of improving and able to identify, absorb, and use knowledge (Truss et al., 2013). Therefore, managers should have to consider that to improve performance, they have to emphasize the organization’s ability to continually learn, innovates, and change, to fit with the dynamic environment. This in turn enables the organization to improve the firm performance and achieve the intended goals. Moreover, this study found a positive relationship between knowledge accessibility and firm performance. Many researchers emphasized that knowledge is playing an essential role in successful business activities all over the globe. For instance, Abualoush et al. (2014) suggest that knowledge accessibility enhances an organization’s ability to make Knowledge and ideas widely available to employees, which their performance in mutual collaboration. Employees who feel there is proper knowledge accessibility from their supervisor, care about their growth and development which makes them obligated and reciprocate with high enthusiasm and dedication at work. The results of this article also revealed Workforce optimization has a positive effect on firm performance. This result is consistent with the result of prior research (e.g. Ajisafe et al., 2015; Jamal & Saif, 2011). This holds that the organization’s success could be enhanced by optimizing the performance of its staff through increasing and sustaining talent. For being effective, organizations must create processes that give access to knowledge, encourage knowledge transference while concurrently fostering a dedication to the organization which positively impacts their performance.

Overall, HCM has been highlighted as one of the main success factors of an organization. The dynamics of the business competitive environment require the firm to utilize organization particular resources like employee knowledge, skill, and competencies in a proper manner. It is believed also that employees are regarded as value-adding and crucial strategic assets and organizations can guarantee its achievement through investment in HCM drivers. Central to this view is the recognition that individual employees as vital to the accomplishment of these strategic and organizational goals. Grounded in a resource-based theory, which states an organization improves competitive advantage, not only by acquiring but also by developing, and effectively deploying its human capital



resource in a way that could add unique value and are hard for competitors to imitate (Newbert, 2007), which in turn improves firm performance. In sum, individuals must have sufficient knowledge, information, skill, innovation, and creativity to enhance the customer's satisfaction create and competitive gain for the organization.

Furthermore, the results of the SEM shown that the ORI positively moderates the relationship between all HCM drivers and firm performance. Such that employees with reduced insights of HCM practices will demonstrate a higher level of firm performance if they have higher ORI than the employees with lower ORI. ORI can compensate for the comparatively poor views of HCM practices. This means employees who hold a poor view concerning their HCM practices may not display a lower level of firm performance in the workplace whenever they hold a higher level of ORI. With this understanding, prior research claimed that ORI creates a feeling of solidarity, behavioral and attitudinal support for the organization, and perception of the shared attributes within the members (Liu et al., 2011; Riketta, 2005), which strengthen the relationship between HCM and firm performance.

8. CONCLUSION

To conclude, the purpose of this study was to examine the effect of HCM practice on firm performance, and ORI was treated as a moderator. The study revealed that the drivers of HCM namely leadership practice, learning capacity, knowledge accessibility, and workforce optimization have a positive effect on firm performance in the context of the Ethiopian corporation (Ethio-telecom). Overall, HCM has been highlighted as one of the main success factors of an organization. The dynamics of the business competitive environment require the firm to utilize organization particular resources like employee knowledge, skill, and competencies in a proper manner. It is believed also that employees are regarded as value-adding and crucial strategic assets and organizations can guarantee its achievement through investment in HCM drivers.

9. CONTRIBUTIONS

First, this study suggests a need for organizations to offer effective HCM practices (i.e. leadership practice, learning capacity, knowledge accessibility, and workforce optimization) to have better firm performance. Hence, this study extends the current literature of organizational HCM in an organizational work setting. Though previous research has indicated that HCM practices as a bundle affected organizational performance. This study highlights the specific HCM practices towards firm performance, and this study proposed the role of ORI is proposed, for the first time as a moderator that impacting firm performance. Second, the results of this study provide evidence for using the resource-based view and social exchange theory to understand the relationship between the HCM, ORI, and FIP. As to the Practical implications, the findings of this research will offer several practical implications, for investors in general and for the research area in particular, on the mechanism of linking HCMP with firm performance. Practitioners should have HCM practical interventions and policies to enhance positive behavioral outcomes and firm performance. The result, therefore, lays importance on and enhancing firm performance like profit margin, revenue, return on assets, return on equity, and sales growth by confirming that HCM practices as a key antecedent. Second, the findings confirmed a conception that the ORI is of the utmost significance in increasing employee firm performance, which covers the practical significance of this study for policymakers and practitioners. Therefore, the practitioners and managers need to provide proper HCM practices, building good employees' organizational identification, which will enhance performance. Managers could involve employees in the administrative process, developing activities to raise their sense of organizational identification and their membership within the organization.

10. LIMITATIONS AND FUTURE RESEARCH

There are some significant limitations to this research that must be recognized. First, only the members of the Ethio-telecom sector were considered as the respondents in the current study. Other sectors such as banks, government institutions, and other services or manufacturing industries could be considered in future research. Second, this research uses the individual team level analysis, in which only employees working at the position of branch manager, supervisor, and customer service supervisors were considered as the respondents. Thus, the findings may be generalized by using the individual and organizational levels of analysis as respondents in future research. Third, from a methodological standpoint, this research is considered a cross-sectional approach. Hence, future studies may consider the longitudinal method. And finally, this study reported the effect of HCM practices (leadership practice, learning capacity, knowledge accessibility, and workforce optimization) on firm performance, hence future researches could incorporate other drivers of HCM (e.g. career planning, compensation, talent retention) towards firm performance. Overall, although the findings provide a better picture of a robust relationship between the variables examined in this study, this being in a private sector Ethio-telecom), perhaps the stated research issues could be different in other sectors.



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