THE ROLE OF FINANCIAL CAPITAL RESOURCE CAPABILITIES IN IMPROVING EMPLOYEE PERFORMANCE IN COURRIER COMPANIES IN KENYA

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ABSTRACT: Financial capital in organizations is a key form of asset that exists in various sources and characteristics. Financial capital commonly refers to assets needed by a company to provide goods or services, as measured in terms of money value. The most important sources of financial capital are debt and equity. Debt represents credit from a lender, also known as creditor, and is created when a creditor agrees to lend a sum of assets to a debtor (borrower). It is imperative that firms source for financial resources that will enable purchase of tools and other equipment required by employees in discharging their duties. Equity on the other hand is direct investment into an organization. The initial equity is financed by the principal owner and the start-up team, then equity is obtained for their successive growth from high net worth family members, friends called angel market. This paper is an assessment of the role played by financial capital resource capabilities of a firm to improve employee performance. The study used a target population of 2800 from which a sample of 339 respondents was obtained using Cochran’s formula. Simple random sampling and employed explanatory research design were also used. Data was analyzed using descriptive and inferential statistics. Correlation and moderated regression analysis were used to test the hypotheses. The findings showed that financial capital resource capabilities had a great influence on employee performance, thus played the key role in organization’s performance.

KEYWORDS: Employee Performance, Financial Capital Resource Capabilities, Competitive Advantage.

INTRODUCTION

Literature on strategic management is increasingly focusing on company resources to explain persistent performance differences by the employees (Ireland et al., 2003; Hitt et al.; 2001; King & Zeithaml, 2001). Evidently, the industry has evolved to include a faster traditional letter post, freight of telecommunications, broadcasting and publishing in many developed countries which has continued to change the landscape of physical communications globally including e-services in recent years. This definitely requires provision of adequate deployment of financial capital capabilities. This enables firms to achieve a competitive advantage and become sustainable. Furthermore, new technologies are changing the world of courier companies but when one buys a product from an e-commerce site, the order is placed on the internet, in the end. The goods are not delivered electronically but through a courier company, which is the physical link between the seller and the buyer (Gru¨nert & Sebastian, 2000).
LITERATURE/THEORETICAL UNDERPINNING

According to Collender and Morehart, (2004), the term financial resource capital refers to the purchasing power or medium that represents saved-up financial wealth, usually in the form of currency, which is used by firms or individual entrepreneurs to invest, to start or develop a business, that is, to purchase or acquire physical capital. The financial resource capabilities are accumulated to produce goods or to provide services mainly with the intent of receiving income and/or achieving capital gains (Collender & Morehart, 2004). Financial capital capabilities, representing free purchasing power, then allows firms to pursue profitable investment opportunities, without having to save the necessary funds.

According to Sogorb, (2002), the most relevant capital structure theories that explain the capital structure are those related to static trade-off, adverse selection and moral hazard (from agency theory and the pecking order theory). As pointed out by Andree and Kallberg, (2008) the genesis of modern capital structure theory lies in the work of Modigliani and Miller, (1958) in their famous proposition often referred to as the irrelevance theorem. The theorem suggests that, under certain perfect market assumptions, such as absence of taxes, bankruptcy costs, agency costs and asymmetric information, the value of the firm is unaffected by how the firm is financed. This implies that the choice of capital structure does not affect a firm’s market value. It is the assets of a firm that determine the value of the firm and not the way by which these assets are financed.

The initial perfect market assumptions, on which the theory of Modigliani and Miller, (1958) was based, were later reviewed in 1963 with the introduction of the tax benefits of debt. This is attributed to the fact that a perfect market does not exist in the real world. Since interest on debt is tax-deductible, thereby creating tax savings for the borrower, it becomes possible for firms to minimize their costs of capital and maximize shareholders’ wealth by using debt. This is known as the leverage effect of debt (Modigliani & Miller, 1963). According to Miller and Modigliani (1963), a firm should have 100% debt in its capital structure. Resource Based Theory has also been used to demonstrate the importance of financial capital on the firm performance (Elsenhardt & Martin, 2000). Access to financial capital to purchase fixed and current assets is important to sustaining a firm’s competitive advantage.

Empirical studies such as Wiklund and Shepherd, (2005) and Zhou and Chen, (2008) identify that there is need for financial capabilities to obtain physical resources in order to take advantage of business opportunities. According to Bolingtoft et al., (2003), to establish and sustain firm performance, there is need to have access to different types of resources: human capital, physical capital and financial capital each playing different but equally important roles during the life cycle of a new firm. Bolingtoft et al; (2003) further points out that there are many explanations offered for the failure of new firms. One of the most frequently cited reasons is resource poverty while Garcia and Martinez; (2007) point out that non-availability of working capital is a major constraint to the survival and growth of new firms.

The debt resources provided to a firm may be financial (like granting a loan to an employee or the firm), or they may consist of goods or services (like consumer credit to the firm or employee). Lenders usually grant capital finance with expected repayment, plus a price (interest). Lenders also commonly gain a limited form of control over the operation of the firm, but the contractual agreement formulating the lender-borrower relationship has strong enforcement power. For example, if interest payments are missed, the creditors may take
control of the company and liquidate it to recover some of their investment. Debt can be acquired from financial institutions such as commercial banks, finance companies, credit unions, or other non-traditional financial institutions, which are intermediaries managing deposits from individuals and businesses and offering them to productive use in firms or by entrepreneurs in diverse forms of debt securities (longer-term funds), from standard credits to micro-credits.

Debt can be also obtained from non-financial sources, for example, from suppliers of goods and services in the supply chain (trade credit), or from other businesses (inter-enterprise credit) and individuals on informal markets, as well as from governments. Also, the principal owner can be a lender to the business he/she is the principal owner of. Equity financing a business’s investment projects represents a direct increase in the business’s own capital. Financial resource capabilities that is required for the start-up of a business is mainly equity that is contributed by the entrepreneur or co-owners of a business, and obtained, for example, by means of savings or inheritance. In a more advanced stage of a firm’s life cycle, equity is typically acquired through external investment. Investors who directly finance new assets (physical capital) generally acquire share ownership, together with some form of control over the firm.

Equity holders own and control the firm’s assets, although ultimate control is determined by the type of equity for example voting versus non-voting stock, preferred versus common stock, limited versus general partners (Barry and Robison, 2001). As profits are made by the business, equity investors either get paid their portion in profits through cash dividends or the profits are retained by the business (invested into physical capital), which adds to the value of the equity and the value of per-owner capital share (Kriz et al., 2000). After the initial equity financed by the principal owner and the start-up team, businesses often obtain equity for their successive growth from high net worth family members, friends or acquaintances on the so-called angel market. As another equity source, venture capital represents intermediated funds that are provided on more formal markets than angel finance markets. These markets are often referred to as private equity markets. After achieving considerable size, businesses gain access to equity through issuing publicly traded stocks on the stock exchange. This size stage is only rarely achieved or aimed at by companies that are active in primary production (Berger and Udell, 1998).

METHODOLOGY

The paper made use of explanatory research design to establish the role of financial capital resource capabilities in sustaining employee performance of courier companies (Oso and Onen, 2005).

The target population for this study included all cadres of employees of registered courier companies in Nairobi County, Kenya. A population of 2800 employees in 109 courier companies in Nairobi County was used. Simple random sampling technique was used to select a representative sample from the target population. To achieve this, Cochran’s, (1963) formula of finite population as indicated:

\[
\text{Cochran, (1963) formula: } \quad n = \frac{\text{no.}}{\text{no.}-1}
\]
Where: \( n = \text{new sample size} \)
\[ \text{no.} = 385 \]
\[ N = \text{Population of the study} \]
Therefore the sample size is:
\[ n = \frac{385}{385-1} \]
\[ 1 + 384 \]
\[ 2800 \]
\[ n = 385 \]
\[ 1 + 0.13714 \]
Thus a sample size of 339 respondents was obtained.

Questionnaires were used to obtain primary data. The Principal Components Factor Analysis (PCA) was used to determine the factor structure of the constructs. Construct means and standard deviations were computed to examine the variance in responses.

RESULTS AND DISCUSSION

Financial capital resource capabilities were conceptualized to be measured by six items on a five point Likert scale. On average, respondents agreed that firm’s internal cash flows are adequate for running courier services for the whole year with a mean 4.01, this means that majority of the employees are provided with adequate financial resources to boost employee performance. Financial stability had a mean of 4.05 meaning that the courier firms are endowed with adequate financial resources to service employee requirements as well as customer needs. Employees receive their salaries on time as portrayed by a mean of 4.08 an indicator of financial soundness of the courier companies. They neither agreed nor disagreed on the following issues on debts obligation whose mean is 3.9 which means that employees are not in clear picture of whether their companies have debt obligations or not. Payment of bonuses to staff had a mean of 3.4 which means that some courier firms are able to award bonuses to excellent performance while other firms do not have the capabilities to do so. Provision of CSR activities was represented by a mean of 3.3, this is an indicator that employees may not be aware if the same is practiced in their firms and the same could be going on in few firms.

Factor analysis

Table 1KMO and Bartlett's Test Results for Resource Capital Capabilities

| Kaiser-Meyer-Olkin Measure of Sampling Adequacy | .832 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 2580.065 |
This study used the principal component analysis to detect the structure in the relationships between the study variables. Kaiser criterion of retaining factors with Eigen values greater than one (1) was employed. To check the adequacy of data for extraction of the principle components, the Kaiser-Meyer-Olkin and the Bartlett’s test of Sphericity were used, Table 4.5A value of 0.6 and above for the Kaiser-Meyer-Olkin and Bartlett’s Sphericity were acceptable as suggested by Tabachnick and Fidell, (2007).

**Table 2 Factor Analysis Results for Squared Loadings and Eigen Values For Capital Resource Capabilities**

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigen values</th>
<th>Extraction Sums of Squared Loadings</th>
<th>Rotation Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total % Var.</td>
<td>Cum. %</td>
<td>Total % Var.</td>
</tr>
<tr>
<td>2</td>
<td>2.269</td>
<td>8.402</td>
<td>2.269</td>
</tr>
<tr>
<td>4</td>
<td>1.514</td>
<td>5.608</td>
<td>1.514</td>
</tr>
<tr>
<td>5</td>
<td>1.342</td>
<td>4.971</td>
<td>1.342</td>
</tr>
<tr>
<td>7</td>
<td>1.104</td>
<td>4.090</td>
<td>1.104</td>
</tr>
<tr>
<td>8</td>
<td>1.093</td>
<td>4.047</td>
<td>1.093</td>
</tr>
<tr>
<td>9</td>
<td>.924</td>
<td>3.423</td>
<td>.924</td>
</tr>
<tr>
<td>10</td>
<td>.792</td>
<td>2.932</td>
<td>.792</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.

**Source: survey data (2015)**

The financial capital resource capabilities were conceptualized to be measured by six items. The study findings show that these were sorted and clustered into two factors with Eigen values more than 1.0. Eigen values were 1.514 with a variance of 5.608% Factor two had two items loaded into it: courier firm is able to finance CSR activities had factor loading of .648 and the courier firm pays bonus to excellent staff had factor loading of .586. Factor three had 4 items loaded into it: the firm is financially stable despite stiff competition had factor loading of .723, firm’s internal cash flow are adequate for use all year round had factor loading of .688, the firm meets its debt obligations had factor loading of .668 and the employees receive their salaries/wages on time had factor loading of 0.519.

The paper founded of a Hypothesis (H0) that: ‘there is no significant relationship between financial capital resource capabilities and employee performance in Courier companies. The study findings did not support this hypothesis since it was established that the relationship was positive and statistically significant. The importance of financial resource capabilities in a company cannot be overemphasized since without it, a firm will not prosper; the employees will not be facilitated to perform better since resources required by employees will not be purchased. The study findings are similar to other studies by Wiklund and Shepherded, (2005),
Zhou and Chen, (2008) who stated that access to financial capital to purchase fixed and current assets is important to sustaining a firm’s competitive advantage. Empirical studies such as those that identify the importance of growth of companies need financial capital to obtain physical resources in order to take advantage of business opportunities.

Most courier companies fall in the category of small and medium enterprises that require financial capital resource capabilities to finance various activities as well as provide adequate resources for their employees. According to Bolingtoft et al., (2003), to establish and sustain firm performance, there is need to have access to different types of resources such as human resource, physical resource and financial resource, each playing different, but equally important roles during the life cycle of a new firm.

CONCLUSION AND IMPLICATIONS TO RESEARCH

This study proposes that in order for courier companies to succeed, there is need for them to have adequate financial capital resources to enable the employees perform effectively, be able to run its daily operational activities and ensure that their companies remain competitive in the market. The need for adequate finances will also enable employees especially managers of courier companies carry out expansion programs. There will be need for networking with customers through CSR activities and taking up suggestions on improvement of services delivered by courier employees and this can only be achieved if employees are adequately resourced with the required finances.

FUTURE RESEARCH

Further studies can be done on other attributes of the financial capital resource in organizations for improvement of employee performance.

RECOMMENDATIONS

Financial institutions provide the necessary funding in terms of loans and to maintain good relations with them there is need to service loans as per scheduled and this encourages employees to identify with their companies which are deemed sustainable.

The management of courier companies should revise their capital resource capabilities and should enhance employee performance by providing the necessary financial resource.

REFERENCES


