THE INFLUENCE OF HUMAN RESOURCE MANAGEMENT PRACTICES ON FIRM PERFORMANCE IN THE KENYAN BANKING INDUSTRY

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CITATION: Mukanzi, C. M. (2013). The influence of human resource management practices on firm performance in the Kenyan banking industry. *International Journal of Social Sciences and Entrepreneurship, 1* (5), 522-532.

ABSTRACT

One resource recognized as providing a source of competitive advantage is the human resources of the firm. In support of this, many scholars have reiterated that the increasing interest in human resources is due to the assumptions that employees and the way they are managed are critical to the success of a firm. An effective and competitive human resource is the key to the strength of organizations in facing the challenges of business today. Hence, the importance of having a competitive human resource is synonymous with the success of today's organizations because an efficient and effective human resource will produce quality and productive individuals that can eventually minimize the problems that are related to human resource such as job dissatisfaction, absenteeism, or turnover of employees. This study will used a descriptive quantitative approach..The researcher intends to gather information from respective headquarters within Nairobi. The unit of analysis will be the specialist HR managers. Both primary and secondary data were used.

***Key Words**: Human Resource, Competitive Advantage, Job Dissatisfaction*

Introduction

Katou and Budhwar and (2007) group HRM practices into two HRM systems, namely the HRM system aiming at attracting and developing human resources, and those aiming at retaining human resources. Among the HRM practices aimed at attracting and developing employees are recruitment and selection, training and development; and those aimed at retaining employees are performance appraisals and reward and compensation systems.

Such activities have been linked to organizational competitiveness, increased productivity, higher quality of work life and greater profitability (Cascio, 1992, Schuler and Jackson 1996).Consequently, many researchers link the Human capital with organizational performance through the HRM practices (recruitment and selection, training and development ,performance appraisal and reward and compensation(Cascio, 1992, Schuler and Jackson 1996).This assumption is shared by Katou and Budhwar (2007) who are of the opinion that human resource are capable of contributing to organization performance

However, some studies (Guest, 1997) show that it is important to examine HRM practices in as many settings as possible to justify these results. Consequently, it is worth establishing the effect of HRM practices on organization performance in a developing country, such as Kenya, as opposed to developed countries. Aycan et al., (2007) assert that the major differentiating factors between developed countries and developing countries which have an impact on HRM are contextual. Among the factors are economic, political, historical environments, and socio-cultural characteristics of the workplace and society.

The Banking Industry in Kenya

The Kenyan banking industry is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The Kenya banking system is supervised by the Central Bank of Kenya (CBK). The CBK is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2008 there were forty six banking and non bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus (Central Bank of Kenya Annual report, 2005).

The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector’s interest’s .The KBA serves as a forum to address issues affecting members. The Banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned by; an industry wide branch network expansion strategy both in Kenya and in the East African community region and automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional ‘off-the-shelf’ banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations.

Problem Statement

Prior studies (Katou and Budhwar, 2007) have found substantial positive evidence for statistical associations between HRM practices and improved firm performance. For firms to survive in a global economy, they need to exploit all the available human resources as a means of achieving competitive advantage. Human capital, such as skills, ability and motivation, must be aligned with the needs of the organization to improve performance (Pickles et al, 1999).

Most of the studies in HRM practices and organizational performance have been conducted in the West such as on the domestic operations of US firms, with a smaller number of studies carried out in developing countries (Guest and Hoq, 1992). Numerous studies have shown a positive relationship between HRM practices and organizational performance. However, some studies (Guest, 1997) show that it is important to examine HRM practices in as many settings as possible to justify these results. Aycan, Al-Hamadi, Davis, and Budhwar (2007) assert that the major differentiating factors between developed countries and developing countries which have an impact on HRM are contextual. Among the factors are economic, political, historical environments, and socio-cultural characteristics of the workplace and society. Consequently, it is worth establishing the effect of HRM practices on organization performance in a developing country, such as Kenya, as opposed to developed countries. Apparently, previous studies in Kenya are quite limited in investigating this phenomenon.

Furthermore, despite the abundance of studies in the West which revealed the positive effects of HRM practices on a firm's performance (Bae and Lawler, 200, Droge and Vickery, 1999), so far there is no consistent agreement on what to measure in regards to organizational performance (Becker and Gerhart, 1996). It is in this light that this study seeks to fill the gap on the influence of human resource management practices on firm performance in the Kenyan banking industry.

Literature Review

Human resource management (HRM) practices involve all management decisions and practices that directly affect the people, or human resources, who work for the organization. Previous studies indicate essential HRM practices, as workforce planning (Matthis & Jackson, 2004); job analysis (Cascio, 2006; Dessler, 2003); training and development (Kundo, 2003); recruitment and selection (Kulik, 2004); compensation and reward (Milkovich & Newmen, 1999); performance appraisal; career management; human resource information system; quality of work life, personnel diversity and employees attitude surveys (Armstrong, 2005) affect the performance of a firm. Similarly, Becker and Huselid (1998), Boselie (2002) and Guest (1997) assert that HRM practices affect organizational performance.

Recent studies (Katou and Budhwar, 2006) have identified four essential HRM practices namely; recruitment and selection, training and development, performance appraisal and compensation and reward. Huselid, Jackson and Schuler (1997) argue that the four HRM practices or the "traditional practices" are generally preferred by managers to produce quality performance. Daud (2006) also supports the use of the four traditional HRM practices to evaluate the organizational performance.

Björkman and Budhwar (2007) highlight the significant predictor of business performance. In this connection, researchers have used financial and non financial metrics to measure organizational performance. The financial measures include profit, sales, and market share. Non-financial measures include productivity, quality, efficiency, and the attitudinal and behavioral measures such as commitment, intention to quit, and satisfaction (Dyer & Reeves, 1995). This study intends to establish the link between HRM practices (recruitment and selection, training and development, performance appraisal, and reward and compensation) and performance of organizations in the Kenyan banking industry.

Selection/ Recruitment and Firm Performance

According to Myloni et al. (2004), recruitment and selection primarily aims at attracting maximum number of highly talented applicants and selecting the best in order to achieve competitiveness in the firm. The process entails concerted efforts by management to ensure implementation enduring success of organizational goals. Delany and Huselid (1996) established that practicing an effective recruitment and selection process has positive relationship with organizational performance. Effective selection system based on modern and need-based tests is essential to affect desirable selection. However, considerable resources are needed to ensure the effectiveness of these selection tests (Pfeffer, 1995). .

A major issue in the recruitment and selection of staff has been concerned with the process of identifying relevant qualities that are required of existing and potential applicants that will enable an appropriate match to occur between person and job. The tool traditionally used to identify these qualities has been job analysis. Job analysis can be categorized into task oriented and person oriented methodologies. Task oriented methodologies generate a list of the activities that are required of the jobholder as derived from research of the job. Recent developments such as flexibility, teamwork, and multi-skilling also limit the usefulness of such task-oriented approaches.

Under the circumstances prevailing on the relationship between selection/recruitment and firm performance, it is worth establishing the effect of such HRM practices on firm performance in Kenya.

Training/development and Firm Performance

Training and development enables people to acquire new knowledge, learn new skills and perform tasks better. Training designs summarize all that is required in training to enable the trainee, upon completion, to perform efficiently. "Training focuses on learning the skills, knowledge, and attitudes required to initially perform a job or task or to improve upon the performance of a current job or task, while development activities are not job related, but concentrate on broadening the employee's horizons" (Nadler and Wiggs, 1986) all of which can affect performance. Training focuses on the current job, while development concentrates on providing activities to help employees expand their current knowledge and to allow for growth. Types of development opportunities include mentoring, career counseling, management and supervisory development, and job training (Cherrington, 1995). Changing business environment necessitates that learning organizations should spend on training and development of employees to enhance organizational ability to positively respond to the dynamic environment (Jarventaus, 2007).

Cherrington (1995) suggests that some of the benefits of training include: (1) orienting and informing employees, (2) developing desired skills, (3) preventing accidents through safety training, (4) supplying professional and technical education, and (5) providing supervisory training and executive education. Some of the benefits are reducing the learning time for new hires, teaching employees how to use new or updated technology, decreasing the number and cost of accidents, providing better customer service, improving quality and quantity of productivity.

Bartel (1994) demonstrates that training has a positive influence on organizational performance. For example, investments in training programs made by low productivity companies have resulted in productivity growth large enough to reach the labor productivity levels of comparable businesses. Similarly Russell, Terborg and Powers (1985) have shown a strong positive relation between percentage of trained employees and performance.

However, some authors (Jurich, 2001) argue that training is an expensive item. It is in this light that this study intends to establish the effect of training on performance of firms in the Kenyan Banking Industry.

Firm performance

Organizational performance is a method of measuring the success of the organization to ensure that it achieves its goals (Dreikorn, 1995). Guest (2001) reckons that as organizations link the maximization of performance with HRM practices, the HRM practices can enhance organizational image, interpersonal relations and commitment to the organization.

The success of an organization is gauged from several indicators both qualitative and quantitative (Fry et al., 1998). These include financial performance and non-financial performance. Performance measures may be cost-oriented or non-cost oriented and can be internal or external. Hence, performance measures may be categorized as shown below:

Table 1: Measures of firm performance

Cost oriented measures (Objective)	**Non cost oriented measures (subjective)**
Net profit	Product quality
Return on assets	Market share
Return on equity	Image
Annual sales growth	Interpersonal relations

Although organizational performance is the most extensively used dependent variable in organizational research, it still remains vague and loosely defined (Rogers & Wright, 1998). Performance has been traditionally conceptualized in terms of financial measures; but some scholars have proposed a broader performance construct that incorporates non-financial measures including among others market share, product quality, and company image.

Financial measures of performance are criticized for lacking neutrality (Emmanuel et al., 1990); and encouraging short-termism (Wilson & Chau, 1993). Most management practices built around financial measures bear little relation to a company's progress in achieving long-term objectives. Financial measures are also criticized for lacking balance (Kaplan & Norton, 1996) because they are more concerned with physical assets and ignore, for instance, perspectives of customers, and internal business processes. All these perspectives are necessary under the circumstances where companies transform themselves for competition based on information. Under the circumstances, non-financial measures of performance have also been used to gauge the performance of a firm (Kaplan & Norton, 1996).

Some studies (Youndt et al., 1996) suggest asking managers to assess their own firm's performance relative to others in the same industry or sector. They suggest the use of multiple items and multiple respondents to assess performance. This study opts to use multiple items in order to assess the performance of the organizations under study. The items are both cost and non cost oriented including: quality of product, company image, interpersonal relations, return on assets and return on equity.

Research Methodology

This study will used a descriptive quantitative approach. The researcher intends to gather information from respective headquarters within Nairobi. The unit of analysis will be the specialist HR managers. Both primary and secondary data were used.

Table 2: ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F-calculated	Sig.
1	Regression	1.342	4	.254	13.85	.0035
	Residual	99.970	93	1.244		
	Total	109.685	97			

The significance value is .0035 which is less than 0.05 thus the model is statistically significant in predicting Selection/ Recruitment and Firm Performance, Training/development, Performance Appraisals and Reward /compensation. The F critical at 5% level of significance was 3.23. Since F calculated is greater than the F critical (value = 13.85), this shows that the overall model was significant.

Table 3: Multiple regression analysis

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.976	1.384		0.978	0.003
	Selection/ Recruitment and Firm Performance	0.877	0.159	0.897	0.997	0.000
	Training/development	0.588	0.085	0.455	0.707	0.005
	Performance Appraisals	0.705	0.145	0.326	0.769	0.002
	Reward /compensation	0.299	0.210	0.297	0.539	0.008

The researcher conducted a multiple regression analysis so as to determine the relationship between y and the four variables. As per the SPSS generated table 4.8, the equation

($\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$) becomes:

$Y = 2.976 + 0.877X_1 + 0.588X_2 + 0.705X_3 + 0.299X_4 + \varepsilon$

Where Y is the dependent variable (Firm Performance), X_1 is the Selection/ Recruitment variable, X_2 is Training/development variable, X_3 is Performance Appraisals variable and X_4 is strategic planning element factor.

According to the regression equation established, taking all factors into account (Selection/ Recruitment and Firm Performance, Training/development, Performance Appraisals and Reward /compensation.) constant at zero, Firm Performance will be 2.976. The data findings analyzed also show that taking all other independent variables at zero, a unit increase in Selection/ Recruitment will lead to a 0.877 increase in firm performance; a unit increase in Performance Appraisals will lead to a 0.588 increase in Firm Performance, a unit increase in Reward /compensation will lead to a 0.97 increase in firm performance. This infers that Selection/ Recruitment contribute more to the firm performance followed by Performance Appraisals.

At 5% level of significance and 95% level of confidence, Selection/ Recruitment had a 0.000 level of significance; Training/development showed a 0.005 level of significant, Performance Appraisals showed a 0.002 level of significant, Reward /compensation had a 0.008 level of significant; hence the most significant factor is Selection/ Recruitment.

Summary of the Findings

The study aimed at assessing the influence of human resource management practices on performance of banks listed in the Nairobi Stock Exchange. From the findings, it was found out that the organization makes use of formal training through training programs to a great extent (mean, 4.4118, stdev 0.89163); that without training employee performance cannot be achieved to a great extent (Mean 4.2353; Stdev 0.55371); that training efforts are limited and informal (Mean ; 4.1176, Stdev 1.09447), that the form of training offered includes mentoring, career counseling, management and supervisory development, and job training (Mean 4.0882; Stdev 0.79268); that the quality of training and development is highly linked to the overall organization performance (Mean 4.0294; stdev 0.62694), that training evaluations based on performance are often conducted (mean 3.8235; Stdev 0.83378); that the form of training and the processes enables people to acquire new knowledge, learn new skills and perform tasks better (Mean 3.6176; stdev 0.85333); that there is socialization of new employees (staff orientation) (Mean 3.4706; stdev 0.82518) that management development is aimed at management succession (Mean 3.2647; Stdev 0.93124), and that management development and decision making is linked to both individual and organizational needs (Mean 3.1471, Stdev 0.85749).

Conclusions

From the findings, it was found out that the organization makes use of formal training through training programs to a great extent; that without training employee performance cannot be achieved to a great extent; that training efforts are limited and informal, that the form of training offered includes mentoring, career counseling, management and supervisory development, and job training; that the quality of training and development is highly linked to the overall organization performance, that training evaluations based on performance are often conducted; that the form of training and the processes enables people to acquire new knowledge, learn new skills and perform tasks better; that there is socialization of new employees (staff orientation); that management development is aimed at management succession, and that management development and decision making is linked to both individual and organizational needs.

Further conclusions drawn from the study are that performance appraisal is a vital means to offer promotion, recognition, and career; that the developmental purpose of performance appraisal is more productive in influencing organizational performance; that appraisees are inclined to believe that appraisals results should be linked directly to reward outcomes- and are suspicious and disappointed when told this is not the case; that performances appraisals assist are instrumental in identifying ways to help individuals improve their current positions and prepare for future opportunities; that staff development does not depend on employee appraisals; that performance appraisal is based on demonstrated achievement on performance objectives; that the aim of performance appraisals is to help determine reward outcomes(pay increases, bonuses and promotions); that appraisal results are used to identify the poor performers, who may require some form of counseling.

Recommendations

The firms' management should recruit or select the maximum number of highly talented applicants and selecting the best in order to achieve competitiveness in the firm.

Further, the study advices managers to ensure the organization has put in place proper training mechanisms in place which should include: (1) orienting and informing employees, (2) developing desired skills, (3) preventing accidents through safety training, (4) supplying professional and technical education, and (5) providing supervisory training and executive education. This helps in reducing the learning time for new hires, teaching employees how to use new or updated technology, decreasing the number and cost of accidents, providing better customer service, improving quality and quantity of productivity.

The organization should also have a balanced, fair and competitive compensation and reward system affect the retention of employees and thus positively affect firm performance. A valence-based reward philosophy act as the driver or individual and team performance.

Finally, there should be wider communication of performance appraisal policies within organizational as it makes employees clear about their specific role expected as contribution in organizational performance.

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