Human Resource Management Practices and Firm Performance: A Study of Manufacturing Firms in Kenya

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Abstract- Manufacturing in Kenya account for the greatest share of industrial production output characterized by relatively low value addition of 7.5 per cent recorded in 2010 to 2.3 per cent recorded in 2011, low employment and capacity utilization and a paltry 25 percent export volumes. However, the share of Kenyan products in the regional market is only 7 percent of the US $11 billion regional market and its contribution to the GDP has remained at about 10 percent since the 1960s. This has given rise to the concern that practicing managers have put little effort to improve the situation. This study therefore sought to establish the relationship between Human Resource Practices and firm performance in the manufacturing firms in Kenya. Used a census survey of the 68 medium and large manufacturing firms whose core activities involved in production and marketing of edible oils, soaps and detergents, beverages or sugar registered in the Kenya Association of Manufacturers directory 2012. Data was collected through self administered questionnaires sent to the Production Manager, Brand Manager, Human Resource Manager, Marketing Manager, or the relevant manager dealing with innovations. The main findings of this study reveals that manufacturing firms apply human resource management practices to different extents. For instance, some models of human resource management practices such as licensing are not commonly used, while others like hiring of skilled employees and teaching company schemes are very common with average composite mean score of 4.00 and 4.08 out of the best score of 5.0 respectively.

Key words: Human resource management practices; firm performance; medium and large manufacturing firms; core activities - production and marketing of edible oils; soaps and detergents; beverages or sugar; Kenya; Bulitia

1. INTRODUCTION

Hiltrop (1996) asserts that HR practices have a powerful influence in causing certain employee attitudes, behaviours and perception that in turn leads to better performance. There is growing evidence on adoption of high-commitment/high-involvement HR practices are associated with positive performance outcomes (Bashir, and Khattak 2008; Pil and MacDuffie 1996; Huselid, 1995), and higher financial success (Lawler et al. 1995). The synergy effect will be more pronounced when these HR practices are implemented as a whole system rather than separate HRM practices in isolation (MacDuffie 1995). Human resource management practice is crucial in meeting the challenges in the formalization of and access to experience, knowledge and expertise that create new capacities, superior performance, and innovation (Beckman 1999). Human resource management practices can support and contribute to the creation, integration and utilization of knowledge. Knowledge-intensive industry faces a dynamic and fiercely competitive environment. Manufacturing in Kenya account for the greatest share of industrial production output and are mainly agro-based - characterized by relatively low value addition of 7.5 per cent recorded in 2010 to 2.3 per cent recorded in 2011, low employment and capacity utilization and a paltry 25 percent export volumes. The sector makes an important contribution to the Kenyan economy and currently employs 254,000 people, which represents 13 per cent of total employment with an additional 1.4 million people employed in the informal side of the industry. However, the share of Kenyan products in the regional market is only 7 percent of the US $11 billion regional market and its contribution to the GDP has remained at about 10 percent since the 1960s. The bulk of Kenya’s manufactured goods (95 per cent) are basic products such as food, beverages, building materials and basic chemicals which are not sufficient to meet the nation’s population. Only 5 per cent of manufactured items, such as pharmaceuticals, are in high –tech and skill-intensive activities. Large companies in Kenya are mostly multinational corporations concentrated mainly around urban areas and they account for a large proportion of manufacturing sectors output and employment which comprise only 22% of the firms but contribute over 80% of the total manufacturing surplus in Kenya whereas indigenous firms mainly in rural areas comprising 78% of firms contribute below 20% of the total manufacturing surplus. The consumer on the contrary
exhibit high demand for such scarce basic products for survival. Researchers have concentrated on the relationship between HRM and Performance; the relationship between firm innovation and firm performance; predictors of administrative and technological innovations; and the effect of commercializing technological innovation by universities. In all these research done in Kenya, the explanation on why manufacturing firms in Kenya are performing poorly does not give a complete picture of the factors affecting performance of such firms as it has been in developed countries because they have ignored the influence of human resource management practices on the firm performance that have been found impacting the performance of firm in developed countries. It could be this overlooking influence of human resource management practices that are of significance. This study therefore sought to investigate the relationship between human resource management practices and firm performance of manufacturing firms in Kenya.

2. CONCEPTUAL FRAMEWORK

Several researchers have noted that HRM practices leads to firm sustainable competitive advantage and superior performance, and HRM is an important means of gaining this competitive advantage (Schuler and MacMillan, 1984; Barney, 1991; Wright et al., 1994). Thus, there is a close relationship between HRM practices and firm performance. In the long run, efficient human resource management practices enhance firm performance (Huselid, 1995). This study examines how human resource management practices affect firm performance. The conceptual framework consisted of hypothesized relationship $H_1$: There is no significant relationship between human resource management practices and performance of manufacturing firms in Kenya; $H_2$: There is significant relationship between human resource management practices and performance of manufacturing firms in Kenya.

This study finds it prudent to use several criteria to measure performance. Lusthaus (2000) discusses performance by splitting it into four main indicators: Relevance, Effectiveness, Efficiency and Financial viability.

The specific objective of the study was:

1. To establish the relationship between human resource management practices and firm performance.

3. METHODOLOGY

This study was based on a census survey of 68 medium and large manufacturing firms whose core activities involved in production and marketing of edible oils, soaps and detergents, beverages or sugar. A census sampling technique was used. The data collection instruments were finally given to all the 68 firms identified out of which 50 responded, giving a response rate of 73.5% hence reliability of the data. Of these, 9 (18%) were indigenous while 41 (82%) were multinational firms. The questionnaire was completed by the Production Manager, Brand Manager, Human Resource Manager, Marketing Manager, or the relevant manager dealing with innovations. The questionnaire was supplemented by secondary data from firms’ published reports. Likert – type statements anchored by a five – point scale ranging from strongly disagree (1) to strongly agree (5) was used to capture specific indicators for each objective. Composite reliability was used to assess inter-item consistency, which was operationalized using the internal consistency method that was estimated using Cronbach’s alpha. Typically, reliability coefficients of 0.70 or higher are considered adequate (Cronbach, 1951; Nunnally, 1978). Nunnally (1978) further states that permissible alpha values can be slightly lower (0.60) for newer scales. Although the constructs developed in this study were measured primarily on previously validated measurement items and strongly grounded in the literature, they were modified somewhat to suit the Kenyan context.

4. FINDINGS AND DISCUSSION

The descriptive measures of firm performance are found in Table 4.13 – Table 4.28. Hiring of skilled employees and teaching company schemes are very common with average composite mean score of 4.00 and 4.08 out of the best score of 5.0 respectively. Taken as a whole, the eight variables (hiring skilled employees, regular training program for staff, managers conduct staff appraisal, hiring of consultants for new ideas, establishment of departments, employee compensation, Management by walking around, formal staff tenure) identified for analysis provide a broad spectrum of measures of HR practices identified in the literature. When these variables were correlated with the major performance measures, the following results were obtained:- on firm effectiveness, the data analysis revealed that having a regular training program for staff was significantly positively correlated with preparation of the firm strategic plan ($r = 0.681, p < 0.01$). In addition, formal staff tenure gave a significant positive correlation with the firm having a mission statement ($r = 0.416, p < 0.01$) and preparing a strategic plan ($r = 0.826, p < 0.01$); on efficiency, the results revealed a significant negative correlation between a regular training program for staff and rate of staff turnover ($r = -0.477, p < 0.01$); hiring of consultants for new ideas and rate of staff turnover ($r = -0.300, p < 0.05$); establishment of departments and rate of staff turnover ($r = -0.569, p < 0.01$); and a significant positive correlation between establishment of departments and frequency of machine breakdown ($r = 0.359, p < 0.05$); on relevance, the data analysis indicated significant positive correlations between hiring skilled employees and stakeholders’ satisfaction on firm’s product and services ($r = 0.288, p < 0.05$), between managers carry out staff appraisal and new products developed by firm ($r = 0.288, p < 0.05$); and between establishment of departments and
development of new products by the firm (r = .361, p < .05), while on financial viability, the results indicate a significant positive correlation between managers carry out staff appraisal and increased firm sales (r = .282, p < .05). In general these results led to the rejection of the null hypothesis and acceptance of the alternative hypothesis that Human Resource Management practices significantly influence firm performance. The study findings concur with MacDuffie (1995) that bundle of interrelated HRM practices had more influence on firm performance than individual practices working in isolation. It also supports Becker and Gerhart (1996) findings on why human resource management (HRM) practices are likely to have an important and unique influence on organization performance. Hiltrop (1996) asserts that HR practices have a powerful influence in causing certain employee attitudes, behaviours and perception that in turn leads to better performance. Finally the proponents assert that there is growing evidence on adoption of high-commitment/high-involvement HR practices associated with positive firm performance outcomes (Bashir, and Khattak 2008; Pil and MacDuffie 1996; Huselid, 1995), and higher financial success (Huselid 1995; Lawler et al. 1995). These researchers argued that human resource management practices had an effect on firm performance. Based on their argument the present study leads us to accept alternate hypothesis that there is significant relationship between human resource management practices and performance of manufacturing firms in Kenya and reject the null hypothesis that there is no significant relationship between human resource management practices and performance of manufacturing firms in Kenya.

5. SIGNIFICANCE AND IMPLICATION OF THE STUDY

5.1 RECOMMENDATIONS

The first theoretical contribution of this study is that the managers in manufacturing firms can strive to improve firm performance indicators; efficiency, effectiveness, relevance and financial viability by hiring skilled employees, regular training program for staff, hiring of consultants for new ideas, establishment of departments, Management by walking around and enhancing formal staff tenure on an ongoing basis. Managers should also provide material incentives to attract and retain high skilled workforce. It is essential for manufacturing sector to provide good performance appraisal to their employees. Fair performance appraisal and control while reinforcing employees’ motivation leads to increase in firm performance. Managers should also encourage employees to acquire, share, and apply their knowledge in order to achieve the performance appraisal goals which are able to lead to better firm performance.

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ANNEXURE

Table 4.13: Frequency of complaints about the quality of the products

| Category of Firms | indigenous | multinational | Total |
|------------------|------------|---------------|-------|
| some times       | 4.0%       | 12.0%         | 16.0% |
| rarely           | 14.0%      | 66.0%         | 80.0% |
| never            | 18.0%      | 82.0%         | 100.0%|

Table 4.14 Frequency of complaints about delay in product service delivery

| Category of Firms | indigenous | multinational | Total |
|------------------|------------|---------------|-------|
| some times       | 4.0%       | 24.0%         | 28.0% |
| rarely           | 10.0%      | 54.0%         | 64.0% |
| never            | 18.0%      | 82.0%         | 100.0%|

Table 4.15 Frequency of complaints about product service delivery

| Category of Firms | indigenous | multinational | Total |
|------------------|------------|---------------|-------|
| some times       | 4.0%       | 6.0%          | 10.0% |
| rarely           | 10.0%      | 72.0%         | 82.0% |
| never            | 4.0%       | 4.0%          | 8.0%  |
|                 | 18.0%      | 82.0%         | 100.0%|
Table 4.16: Descriptive statistics for indicators of effectiveness

| Indicator                                                                 | N | Mean | Std. Deviation | Std. Error | Std. Deviation |
|---------------------------------------------------------------------------|---|------|----------------|------------|----------------|
| Firm has a clear mission statement                                        | 50| 4.32 | .078           | .551       |                |
| mission statement is known too by staff                                   | 50| 3.88 | .079           | .558       |                |
| mission statement is operationalized through the current objective and activities | 50| 4.02 | .073           | .515       |                |
| a system is in place to accesses effectively                              | 50| 4.08 | .069           | .488       |                |
| our products are rated very highly                                        | 50| 4.10 | .043           | .303       |                |
| we prepare strategic plan                                                 | 50| 4.14 | .050           | .351       |                |
| we are able to meet all needs of clients                                  | 50| 3.92 | .085           | .601       |                |
| organization closely monitors its effectiveness                           | 50| 4.00 | .107           | .756       |                |
| Valid N (list wise)                                                       | 50|      |                |            |                |

Table 4.17: Frequency of Machine Breakdown

| Experience of Major Machine Breakdown | indigenous | multinational | Total |
|---------------------------------------|-------------|---------------|-------|
| most times                            | 4.0%        | 6.0%          | 6.0%  |
| some times                            | 8.0%        | 38.0%         | 42.0% |
| rarely                                | 6.0%        | 34.0%         | 42.0% |
| never                                 | 18.0%       | 82.0%         | 100.0%|
Table 4.18: Rate of staff turnover

| Category of Firms | indigenous | multinational | Total |
|-------------------|------------|---------------|-------|
| very high         | 4.0%       | 4.0%          | 4.0%  |
| high              | 12.0%      | 2.0%          | 14.0% |
| moderate          | 2.0%       | 16.0%         | 18.0% |
| low               | 40.0%      | 40.0%         | 40.0% |
| very low          | 24.0%      | 24.0%         | 24.0% |
| Total             | 18.0%      | 82.0%         | 100.0%|

Table 4.19: Mean scores for common indicators of Efficiency

| Indicator | N | Mean Statistic | Std. Deviation Statistic | Std. Error Statistic |
|-----------|---|----------------|--------------------------|----------------------|
| make best use of resources | 50 | 4.08 | .048 | .340 |
| administration provide good value for cost | 50 | 4.10 | .043 | .303 |
| make best use of all staff to the best of their ability | 50 | 4.12 | .062 | .435 |
| all broken machines are repaired on time | 50 | 3.94 | .072 | .512 |
| experiencing of no stock out as a result of machine brake down | 50 | 3.54 | .104 | .734 |
| operation machine are continuously serviced | 50 | 3.78 | .119 | .840 |
| Valid N (listwise) | 50 |

Table 4.20: Stakeholder level of satisfaction with firm’s products and services

| Category of Firms | indigenous | multinational | Total |
|-------------------|------------|---------------|-------|
| very high         | 6.0%       | 24.0%         | 30.0% |
| high              | 4.0%       | 46.0%         | 50.0% |
| moderate          | 8.0%       | 8.0%          | 8.0%  |
| low               | 12.0%      | 12.0%         | 12.0% |
| Total             | 18.0%      | 82.0%         | 100.0%|

Table 4.21: Number of new products introduced in the last five years

| Frequency | Percent |
|-----------|---------|
| none      | 2       | 4.0    |
| 1-2       | 29      | 58.0   |
| 3-4       | 9       | 18.0   |
| 5-6       | 5       | 10.0   |
| over 6    | 5       | 10.0   |
| Total     | 50      | 100.0  |
Table 4.22: Number of new products withdrawn from the market

| Valid | Frequency | Percent |
|-------|-----------|---------|
| none  | 13        | 26.0    |
| 1     | 29        | 58.0    |
| 2     | 2         | 4.0     |
| more than 3 | 6     | 12.0    |
| Total | 50        | 100.0   |

Table 4.23: Composite mean scores for individual indicators of relevance

| Indicator | N       | Mean | Std. Error | Std. Deviation |
|-----------|---------|------|------------|----------------|
| product/service revision reflection on changing environment conditions | 50 | 3.76 | .133 | .938 |
| needs assessment is carried regularly on stakeholders | 50 | 3.94 | .101 | .712 |
| regular we monitor/adapt to new technology | 50 | 4.16 | .052 | .370 |
| innovation is strongly encouraged | 50 | 4.04 | .086 | .605 |

Valid N (list wise) | 50

Table 4.24: Total Asset to total Liability Ratios

| Interpretation | Frequency | Percent |
|----------------|-----------|---------|
| 85:15 - 95:05  | Very high | 5       | 10.0   |
| 75:25 - 84:16  | High     | 10      | 20.0   |
| 65:35- 74:26   | moderate | 6       | 12.0   |
| 45:55-64:36    | Low      | 27      | 54.0   |
| less than 45:55 | Very low | 2       | 4.0    |
| Total          |          | 50      | 100.0  |

Table 4.25: The estimate ratio of net assets to liabilities in the firm

| Interpretation | Frequency | Percent |
|----------------|-----------|---------|
| Valid 85:15 - 95:05 | Very high | 3       | 6.0    |
| 75:25 - 84:16      | High     | 24      | 48.0   |
| 65:35- 74:26       | moderate | 11      | 22.0   |
| 45:55-64:36        | Low      | 8       | 16.0   |
| less than 45:55    | Very low | 4       | 8.0    |
| Total              |          | 50      | 100.0  |
Table 4.26: Composition score of the most important indicators of financial viability

| Indicator                                                      | N   | Mean | Std. Deviation |
|---------------------------------------------------------------|-----|------|----------------|
| organization monitors finance on regular basis                | 50  | 4.00 | .099           |
| suppliers are paid on time                                    | 50  | 3.68 | .116           |
| profit margins have been increasing yearly                    | 50  | 3.86 | .099           |
| Got short/long term loans from the financial institutions      | 50  | 3.00 | .167           |
| assets are greater than liabilities                            | 50  | 4.00 | .057           |
| No cash flow difficulties have been experienced over the years| 50  | 4.06 | .078           |
| our staff are among the best paid in the industry              | 50  | 4.04 | .070           |
| replace old machines and vehicles on time                      | 50  | 4.10 | .082           |
| sales have been increasing over the years                      | 50  | 3.98 | .132           |
| Valid N (list wise)                                            | 50  |      |                |

Table 4.27: Proportion of management in the organization who are graduates

| Category          | Frequency | Percent |
|-------------------|-----------|---------|
| Valid             |           |         |
| less than 40      | 8         | 16.0    |
| 40-60%            | 16        | 32.0    |
| 60-80%            | 16        | 32.0    |
| more than 80%     | 8         | 16.0    |
| 99                | 2         | 4.0     |
| Total             | 50        | 100.0   |

Table 4.28: Perceived importance of indicators of performance

| Indicator          | Average composition index | Best two specific indicators | Mean     | Std. deviation |
|--------------------|---------------------------|-----------------------------|----------|----------------|
| Effectiveness      | 3.4                       | Firm has clear mission      | 4.32     | .551           |
|                    |                           | statement                   |          |                |
|                    |                           | Preparation of strategic    | 4.14     | .351           |
|                  | Rating | Details                                                                 |
|------------------|--------|------------------------------------------------------------------------|
| **Efficiency**   | 2.8    | Make best use of all staff to the best of their abilities             |
|                  |        | Administration provides good value for cost                           |
|                  | 4.10   | .435                                                                   |
| **Relevance**    | 2.4    | Monitor and adapt to new technologies                                  |
|                  |        | Encourage and adopt innovations                                         |
|                  | 4.16   | .370                                                                   |
|                  | 4.04   | .605                                                                   |
| **Financial viability** | 3.2    | Replacement of old machines and vehicles on time                       |
|                  |        | Firm has no cash flow difficulties                                      |
|                  | 4.10   | .580                                                                   |
|                  | 4.06   | .550                                                                   |