

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

H₁₀: There is no significant relationship between human resource management practices and performance of manufacturing firms in Kenya; **H₁₁**: 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 conducts 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 ($r = .681, p < 0.01$). In addition, formal staff tenure gave a significant positive correlation with the firm having a mission statement ($r = .416, p < 0.01$) and preparing a strategic plan ($r = .826, p < 0.01$); on efficiency, the results revealed a significant negative correlation between a regular training program for staff and rate of staff turnover ($r = -.477, p < 0.01$); hiring of consultants for new ideas and rate of staff turnover ($r = -.300, p < 0.05$); establishment of departments and rate of staff turnover ($r = -.569, p < 0.01$); and a significant positive correlation between establishment of departments and frequency of machine break down ($r = .359, p < 0.05$); on relevance, the data analysis indicated significant positive correlations between hiring skilled employees and stakeholders' satisfaction on firm's product and services ($r = .288, p < .05$), between managers carry out staff appraisal and new products developed by firm ($r = .288, p < .05$); 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		Total
		indigenous	multinational	
how often do clients complain about the qualities of the products	some times	4.0%	12.0%	16.0%
	rarely	14.0%	66.0%	80.0%
	never		4.0%	4.0%
Total		18.0%	82.0%	100.0%

Table 4.14 Frequency of complaints about delay in product service delivery

		Category of Firms		Total
		indigenous	multinational	
how often do client complain about delays	some times	4.0%	24.0%	28.0%
	rarely	10.0%	54.0%	64.0%
	never	4.0%	4.0%	8.0%
Total		18.0%	82.0%	100.0%

Table 4.15 Frequency of complaints about product service delivery

		Category of Firms		Total
		indigenous	multinational	
how often do client complain about the quality of service delivery	some times	4.0%	6.0%	10.0%
	rarely	10.0%	72.0%	82.0%
	never	4.0%	4.0%	8.0%
Total		18.0%	82.0%	100.0%

Table 4.16: Descriptive statistics for indicators of effectiveness

	N	Mean		Std. Deviation
	Statistic	Statistic	Std. Error	Statistic
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

	Category of Firms		Total
	indigenous	multinational	
experience of major machine breakdown	most times	6.0%	6.0%
	some times	38.0%	42.0%
	rarely	34.0%	42.0%
	never	4.0%	10.0%
Total	18.0%	82.0%	100.0%

Table 4.18: Rate of staff turnover

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

Table 4.19: Mean scores for common indicators of Efficiency

	N	Mean		Std. Deviation
		Statistic	Std. Error	
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		Total
		indigenous	multinational	
satisfaction of stake holders about product and services	very high	6.0%	24.0%	30.0%
	high	4.0%	46.0%	50.0%
	moderate	8.0%		8.0%
	low		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
		Valid	2
	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

		Frequency	Percent
Valid	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

	N Statistic	Mean		Std. Deviation Statistic
		Statistic	Std. Error	
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

	N	Mean		Std. Deviation
	Statistic	Statistic	Std. Error	Statistic
organization monitors finance on regular basis	50	4.00	.099	.700
suppliers are paid on time	50	3.68	.116	.819
profit margins have been increasing yearly	50	3.86	.099	.700
Got short/long term loans from the financial institutions	50	3.00	.167	1.178
assets are greater than liabilities	50	4.00	.057	.404
No cash flow difficulties have been experienced over the years	50	4.06	.078	.550
our staff are among the best paid in the industry	50	4.04	.070	.493
replace old machines and vehicles on time	50	4.10	.082	.580
sales have been increasing over the years	50	3.98	.132	.937
Valid N (list wise)	50			

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

		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

Overall indicator	Average composition index	Best two specific indicators	Mean	Std. deviation
Effectiveness	3.4	Firm has clear mission statement	4.32	.551
		Preparation of strategic	4.14	.351

		plans		
Efficiency	2.8	Make best use of all staff to the best of their abilities	4.12	.435
		Administration provides good value for cost	4.10	.303
Relevance	2.4	Monitor and adapt to new technologies	4.16	.370
		Encourage and adopt innovations	4.04	.605
Financial viability	3.2	Replacement of old machines and vehicles on time	4.10	.580
		Firm has no cash flow difficulties	4.06	.550