

Relationship between Strategic Human Resource Management and Firm Performance of Kenya's Corporate Organizations

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Abstract

This paper examines the extent to which strategic human resource management influences firm performance from various critical perspectives. Rapid environmental changes, competition to provide innovative products and services, changing customer and investor demands and globalization have become the standard backdrop for firms. Sustained competitive advantage could be generated from a firm's human capital by designing strategic human resource management to diagnose a firm's strategic needs which is required to implement a competitive strategy and achieve operational goals. Effective human resource management strategy systematically organizes all individual human resource management measures to directly influence employee attitude and behavior in a way that leads business to achieve its competitive strategy. Finally, this article develops a conceptual framework that explains the relationship between strategic human resource management, competitive strategies and firm performance.

Key Words: Strategic human resource management, Firm performance, Competitive strategy

1. Introduction

Organizations today have increasingly become aware of the importance of strategic human resource management (SHRM). This awareness in a system is a critical dimension in the performance of organizations (Rees, 2006). The real life experiences substantiate the assumption that no matter how sophisticated and modern the business activities of the organization may become, it will be extremely difficult to sustain its growth and effectiveness unless there are strategies that complement its operations.

Business competitiveness is a recurring theme examined by academicians, consultants and practitioners. The frequent and uncertain changes, greater competition between firms, the need for continuous innovations, quality enhancement and cost reduction force companies to face the challenge of improving their competitiveness and consequently their performance. This realization has propelled SHRM as a major field of study and the renewed interest has facilitated the development of newer approaches in managing organizations and human resource (HR), (Wright, 2005).

According to Armstrong (2009), strategic human resource management (HRM) emphasizes the need for the HR plans and strategies to be formulated within the context of overall organizational strategies and objectives and to be responsive to the changing nature of the organization's external environment. It is an approach which requires interpretation and adaptation by practitioners to ensure the most suitable fit between HR business strategies and plans. Thus, the overall themes of SHRM are the integration of all HRM functions, adherence to broad organization goals and responsiveness to the external environment (Armstrong, 2009).

There are a number of studies (Appelbaum, 2000; Huselid, 2005; Wright, 2005; Schuler & Jackson, 2001) focusing on the main competitive factors of business organizations because of their contribution in the global economy. The quest for competitive advantage has long been a central tenet of the field of strategic management (Armstrong, 2009). Within this field, the configurational theory has emerged as a promising new framework for analyzing the sources and sustainability of competitive advantage. In SHRM, internal fit and external fit are the two main research streams. Scholars have long held that in addition to internal organization characteristics, environmental characteristics also significantly influence firm performance since the external environmental characteristics represent customer demands and nature of market competition which are important determinants of firm performance.

1.1 Background of the Study

Corporate organizations in Kenya contribute around 16.3% to GDP and this has remained largely unchanged since 2004 (Kenya Economic Development report, 2009), and are faced with many challenges including rapid environmental changes, competition to provide innovative products and services, changing customer and investor demands, poor infrastructure and globalization. Therefore, they are also faced with major challenges of constantly improving their performance by reducing costs, enhancing quality and differentiating their products and services. The market environment in the country has been extremely turbulent during the past decade, and to maintain continuous success in the face of global competition, firms must identify and analyze environmental characteristics and develop strategies to meet changing market needs.

According to Kenya Economic Development report (2009), corporate organizations in Kenya employ 25 % of the labour force and contribute over 16.3 % of Kenya's gross domestic product. The sector is also among the largest employers in Kenya in addition to the tax opportunities it presents. According to this report, the economies of most successful countries in the world originated from their successful business organizations which drive the economy of the country. These organizations need to respond to greater global imperatives and challenges to compete effectively in local and global markets.

1.2 Strategic Human Resource Management and Firm Performance

According to Armstrong and Baron (2004), people and their collective skills, abilities and experience, coupled with their ability to deploy these in the interests of the employing organization, are now recognized as making a significant contribution to organizational success and as constituting a major source of competitive advantage. The practices of SHRM such as resourcing, training and development, employee relations and reward management are concerned with how people are employed and managed in organizations so as to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce. Cole (2004) emphasize that the HR function brings in the strategic value of people in organization by making contribution to value added and contribution to competitive advantage. The organization relies on HR as its employees. Effective HRM strategy systematically organizes all individual HRM measures to directly influence employee attitude and behavior in a way that leads business to achieve its competitive strategy (Huang, 2001). In view of the fact that the goals and the necessities of each of the competitive strategy types are different, the management of HR of the firm should be aligned with the overall corporate strategy. The firm can thus obtain a competitive advantage and thus achieve superior performance (Kelliher & Perret, 2001).

There has been a debate by numerous researchers whether SHRM should always be positively related to firm performance. Universalistic scholars argue that there is a universal set of HRM best practices that can maintain a firm's performance (Lau & Ngo, 2004). Contingency scholars hold different points of view and argue that the assumptions underlying the HRM strategy-performance link are applicable only under high external fit conditions, termed the 'best fit' school (Boxall & Purcell, 2000; Bamberger & Meshoulam, 2000).

Delery and Doty (2000) proposed the notion of the configurational perspective which focuses on how unique patterns or configurations of multiple independent variables are related to the dependent variable, by aiming to identify ideal type categories of not only the organizations but also the HR strategy. In most firms today, it is the employees' skills and commitment that create competitive advantage for an organization. It is, therefore, important that organizations truly leverage on the workforce as a competitive weapon to develop a competitive advantage.

Although most of the studies speak of SHRM practices leading to performance, such a one-way line of causation is unsatisfied (Edwards & Wright, 2001). The usual key critique of SHRM and organizational performance is that sound theoretical development that explains how such HR practices operate is absent (Becker, Guest & Huselid, 2001). In an effort to address such theoretical developments in this area, researchers have proposed further studies to consider intermediate linkages between SHRM and organizational performance (Ferns et al., 2008). Accordingly, a better understanding of the role of SHRM in creating and sustaining organizational performance and competitive advantage should be achieved through further theoretical development and empirical evidence.

Most studies examining the relationship between SHRM practices and organization's performance have been conducted mostly in developed countries like United States and United Kingdom, (Purcell, 2003; Guest, 2003; Marchington & Wilkinson, 2007; Leung, 2003; Grant, 2008) and that only a few researchers have measured the mediators and addressed their importance.

The majority of this work in SHRM adopts the resource-based view perspective which tends to ignore contextual variables, particularly competitive strategies, which influence organizational performance. The scarcities of such studies showing association between SHRM practices and organizational performance and also the mediating role of competitive strategies in the Kenyan context makes it important to further explore the critical role of SHRM.

As the role of corporate organizations continue to increase in importance in Kenya, they continue facing the challenges of improving quality and improving people skills, managing workforce diversity, responding to greater globalization and stimulating innovation and change. This paper seeks to determine the influence of SHRM on organizational performance, and establish the moderating role of competitive strategies on SHRM- performance in Kenya as firms must increase their accesses to markets and knowledge by reading correctly changes in external market. This study may, therefore, be valuable to researchers and academicians in providing more knowledge on contributions of competitive strategies to organization's performance. The corporate organizations have a great potential for improvement of quality, profits, innovation and competitiveness.

2. Theoretical Review

In an attempt to explain the relationship between SHRM and firm performance, the researchers have focused on three competing normative theories as debated by numerous researchers: universalistic, contingency and configurational theories.

2.1 Universalistic theory

It is also referred to as the best practice model, which is based on the assumption that there is a set of superior/best HRM practices, and that adopting them will inevitably lead to superior organizational performance (Luthans & Summer, 2005). The notion of best practice was identified initially in the early US models of HRM, many of which mooted the idea that the adoption of certain 'best' human resource practices would result in enhanced organizational performance, manifested in improved employee attitudes and behaviors, lower levels of absenteeism and turnover, higher levels of skills and therefore higher productivity, enhanced quality and efficiency and of course increased profitability (Marchington & Wilkinson, 2008). Here, it is argued that all organizations will benefit and see improvements in organizational performance if they can identify, gain commitment to and implement a set of best HRM practices. Thus, universalistic perspective maintains that firms will see performance gains by identifying and implementing best practice irrespective of the product market situation, industry or location of the firm (Pfeffer, 2001).

However, the notion of a single set of best HRM practices has been overstated. There are examples in every industry of firms that have very distinctive management practices, distinctive human resources practices which shape the core competences that determine how firms compete. What works well in one organization will not necessarily work well in another because it may not fit its strategy, technology or working practices.

According to Becker et al (2001), organizational high performance work systems are highly idiosyncratic and must be tailored carefully to each firm's individual situation and specific context in order to provide maximum performance. These high performance work practices will only have a strategic impact therefore, if they are aligned and integrated with each other and if the total HRM system supports key business priorities. This approach therefore ignores potentially significant differences between organizations, industries, sectors and countries.

The idea of best practice might be more appropriate for identifying the choices of practices as opposed to the practices themselves. The good practices that do well in one successful environment should not be ignored altogether. Benchmarking is a valuable way of identifying areas of innovation and development that are practiced to good effect elsewhere by leading companies. But it is up to the firm to decide what may be relevant in general terms and what lessons can be learnt that can be adopted to fit its particular strategic and operational requirements.

2.2 Contingency theory

For the contingency theory, otherwise known as best fit HRM, there are no universal prescription of HR policies and practices. It is all contingent on the organization's context, culture and its business strategy (Wright & Snell, 2005). Contingency scholars have argued that HR strategy would be more effective only when appropriately integrated with a specific organizational and environmental context. The best fit theory emphasizes the importance of ensuring that HR strategies are appropriate to the circumstances of the organization, including the culture, operational processes and external environment. HR strategies have to take account of the particular needs of both the organization and its people. It explores the close link between strategic management and HRM by assessing the extent to which there is vertical integration between an organization's business strategy and its HRM policies and practices (Schuler & Jackson, 1987; Dyer, 2005; Mahoney & Decktop, 2006).

Wright, McMahan and McWilliams (2004) state that vertical integration between business strategies or the objective of the business and individual behavior and ultimately individual, team and organizational performance is at the fore of core models of SHRM. Inherent in most treatments of fit is the premise that organizations are more efficient and/or effective when they achieve fit relative to when a lack of fit exists (Legge, 2005). This vertical integration or 'fit' where 'leverage' is gained through procedures, policies and processes is widely acknowledged to be a crucial part of any strategic approach to the management of people (Dyer, 2005). The best fit therefore ensures an explicit link or relationship between internal people processes and policies and the external market in business strategy, and thereby ensures that competences are created which have a potential to be a key source of competitive advantage (Wright, Gardner & Allen, 2005).

According to the contingency approach, SHRM is not the ultimate factor that contributes to improved firm performance; it has to be integrated with other factors and the impact of HR practices in firm performance is conditioned by an organization's strategic posture. A firm's approach to competition depends on, or makes use of the talents and capabilities of employees, then HR practices would be more likely to have an impact on performance; otherwise the connection between HR and performance might be minimal.

One criticism often leveled at the contingency model is that it tends to over-simplify organizational reality. In attempting to relate one dominant variable to the organization (for example, compete on innovation, quality or cost) to another internal variable, they tend to assume a linear, non-problematic relationship.

According to Purcell (2001), this theory is limited by the impossibility of modeling all the contingent variables, the difficult of showing their interconnection, and the way in which changes in one variable have an impact on others. Boxall and Purcell (2003) further emphasize the complexity of matching HR and business strategy by stating the need to keep up with ongoing environmental change. They bring attention to a model by Wright (2005) asserting that SHRM should simultaneously promote fit and flexibility to cope with the future. However, responding to those external demands may undermine the possibility of achieving internal fit (Legge, 2005). Models of external fit fail to recognize the needs of employees. More evident in highly competitive markets, businesses cannot survive without balancing the pressures from social norms, labour laws and critical employee interests. Conclusively, an alignment of business and employee needs is needed. The best fit school also lacks emphasis on the internal context of individual businesses within the same sector and the unique characteristics and practices that may provide its main source of sustainable competitive advantage.

2.3 Configurational theory

A strategy's success turns on combining external fit and internal fit. A firm with bundles of HR practices should have a high level of performance, provided it also achieves high levels of fit with its competitive strategy (Richard & Thompson, 1999). Emphasis is given to the importance of bundling SHRM practices and competitive strategy so that they are interrelated and therefore complement and reinforce each other. Implicit in is the idea that practices within bundles are interrelated and internally consistent, and has an impact on performance because of multiple practices. Employee performance is a function of both ability and motivation. Thus; there are several ways in which employees can acquire needed skills (such as careful selection and training) and multiple incentives to enhance motivation (different forms of financial and non-financial rewards.)

A key theme that emerges in relation to best-practice HRM is that individual practices cannot be implemented effectively in isolation (Storey, 2007)) but rather combining them into integrated and complementary bundles is crucial. MacDuffie (2005) argues that a 'bundle' creates the multiple, reinforcing conditions that support employee motivation, given that employees have the necessary knowledge and skills to perform their work effectively (Stavrou & Brewster, 2005). In the configuration school, cohesion is thought likely to create synergistic benefits which in turn enable the organization's strategic goals to be met.

The aim of bundling is to achieve coherence which exists when a mutually reinforcing set of HR practices have been developed that jointly contribute to the attainment of the organization's strategies for matching resources to organization needs, improving performance and quality and achieving competitive advantage in commercial enterprises. The approach of bundling is holistic as it is concerned with the organization as a total entity and addresses what needs to be done as a whole in order to enable it to achieve its corporate strategic objectives.

The notion of a link between business strategy and the performance of every individual in the organization is central to 'fit' or vertical integration. Internal fit advocates bundles of practice, to ensure that organizations gain benefits from implementing a number of complementary practices rather than only a single practice (MacDuffie, 2005). Most models of best fit focus on ways to achieve external fit. The most influential model of external fit is that from Schuler and Jackson (1987) which argues that business performance will improve if their HR practices support their choice of competitive strategy: cost leadership, quality enhancement and innovation. Under this model, organizations need to work out the required employee behaviors to implement a chosen competitive strategy and devise supporting HR practices to enable those behaviors to be encouraged in the workforce. Vertical integration can be explicitly demonstrated through the linking of a business goal to individual objective setting, to the measurement and rewarding of attainment of that business goal.

Schuler and Jackson (1987) defined the appropriate HR policies and practices to 'fit' the generic strategies of cost reduction, quality enhancement and innovation. The significant difference between the contingency and configurational approach is that these configurations represent non-linear synergistic effects and high-order interactions that can result in maximum performance (Delery & Doty, 2000).

Wilkinson (2002) note that the key point about configurational perspective is that it seeks to derive an internally consistent set of HR practices that maximize horizontal integration and then link these to alternative strategic configurations in order to maximize vertical integration and therefore organizational performance. Thus put simply, SHRM according to configuration theorists requires an organization to develop a HR system that achieves both horizontal and vertical integration. The configuration approach contributes to the SHRM debate in recognizing the need for organizations to achieve both vertical and horizontal fit through their HR practices, so as to contribute to an organization's competitive advantage and therefore be deemed strategic. The use of performance management practices and competency frameworks are typically adopted to provide for coherence across a range of HR activities.

3. Conceptual Model

The purpose of this study is to develop a model to show the relationship between SHRM and firm performance. As argued in the earlier discussions, SHRM is the independent variable that influences firm performance which is the dependent variable in this study. Based on the reviewed literature, it is postulated that competitive strategies moderates the relationship between SHRM and firm performance, hence it is the moderating variable that has a strong contingent effect on the independent-dependent variable relationship. This is diagrammatically illustrated in Figure 1.

3.1 Strategic Human Resource Management

According to Werbel and DeMarie (2005), HRM practices create procedures that constitute the building of employees' knowledge and skills throughout the organization to promote valued and unique organizational competencies which support competitive advantage. Strategic HRM is a new paradigm in managing HR in the modern organization which is hinged on the understanding that the most critical resource that any organization must provide itself of is HR, since it is the HR that is responsible for coordinating the other factors of production to spur corporate performance. Strategic HRM aims to achieve strategic fit. It produces HR strategies that are integrated vertically with the business strategy and are ideally an integral part of that strategy. Vertical integration is necessary to provide congruence between business and HR strategy so that the latter supports the accomplishment of the business strategy and helps to define it. SHRM is also about horizontal integration which aims to ensure that the different elements of the HR strategy fit together and are mutually supportive (Armstrong, 2008). It enables strategic decisions to be made that have a major and long-term impact on the behavior and success of the organization by ensuring that the organization has the skilled, committed and well-motivated employees it needs to achieve competitive advantage.

Cooke et al (2005) asserted that SHRM is an efficient function that copes with environmental changes. It directly and indirectly benefits companies because it changes passivity into initiative, transmits organizational goals clearly and encourages the involvement of line managers. Marchington (2008) argue that SHRM positively influences firm performance because it generates structural cohesion, an employee-generated synergy that propels a company forward, enabling the firm to respond to its environment while still moving forward. Cooke et al (2005) investigated the HRM practices of firms in declining industries. They found that most high performance firms adopted SHRM measures. Conversely, low performance firms tended to employ conventional methods. Various researchers (Appelbaum et al., 2000; Guest et al., 2000; West et al., 2002; Purcell et al. 2007) have found a positive relation between HRM practices and firm financial performance. They found that the strategic orientation of HR in high productivity firms differed obviously from that in low productivity firms.

Developments in SHRM thinking are thus explored through the best-fit, best-practice and configurational approaches which have a profound impact in the understanding of the contribution SHRM can enhance organizational performance, through increased competitive advantage and added value. Indeed, it becomes clear that whether the focus of SHRM is on alignment with the external context or on the internal context of the firm, the meaning of SHRM can only be really understood in the context of organizational performance, whether that be in terms of economic value added and increased shareholder value; customer value added and increased market share or people added value through increased employee commitment and reservoirs of employee skills, knowledge and talent. According to Guest (2001), theoretical research shows that SHRM practices are not standardized and as such researchers tend to select a set of SHRM practices depending on the theoretical perspective used. Regarding which HR practices are relevant, the literature often focuses on bundles of HR practices as determinants of firm performance (Lepak et al., 2005). The bundle of HRM practices for this study is adopted from the study by Ahmad and Schroeder (2003) and includes: selective resourcing, training and development, use of teams and decentralization, sharing information and incentives on performance.

3.2 Competitive strategies

Competitive advantage model argues that employers have three basic strategic options in order to gain competitive advantages: cost reduction, quality enhancement, innovation (Schuler & Jackson, 1987). Among the key business issues that may impact on HR strategies include proposals on increasing competitive advantage through innovation leading to product/service differentiation, productivity gains, improved quality and cost reduction (Armstrong, 2009). Business strategies may be influenced by HR strategies which are concerned with making business strategies work. Wright and Snell (2005) suggest that seeking fit requires knowledge of the HRM practices necessary to elicit those skills and behavior, and the ability to quickly implement the desired system of HRM practices. The competitive strategies tend to apply Porter's (1985) ideas on strategic choice. Porter identified three key basis of competitive advantage: cost leadership, differentiation through quality and service and focus on 'niche' markets. Schuler and Jackson (1987) used this as their model of SHRM where they defined the appropriate HR practices and policies to fit the generic strategies of cost reduction, quality enhancement and innovation. They argued that business performance will improve when HR practices mutually reinforce the organization's choice of competitive strategy. Thus, in Schuler and Jackson's model, the organization's mission and values are expressed through their desired competitive strategy.

This in turn leads to a set of required employee behaviors, which would be reinforced by an appropriate set of HR practices. The outcome of this would be desired employee behavior that is aligned with the corporate goals, thus demonstrating the achievement of vertical integration.

3.3 Firm Performance

The measurement of organizational performance is not easy for business organizations with multiple objectives of profitability, employee satisfaction, productivity, growth, social responsibility and ability to adapt to the ever changing environment among other objectives. Although performance has been traditionally conceptualized in terms of financial measures, some scholars have proposed a broader performance construct that incorporates non-financial measures including among others market share, product quality, and company image.

Extant research findings have shown that perceived measures of performance can be a reasonable substitute of objective measures of performance (Wan-Jing & Tung, 2005) and have a significant correlation with objective measures of financial performance. Additionally, cross-industry organizational performance is influenced by external economic factors (Bamberger & Meshoulam, 2000), hence subjective evaluations may be even more appropriate than objective measures in this study. Studies by Youndt et al., (1996) recognize the difficulty in obtaining objective measures of performance and suggest asking managers to assess their own firm’s performance relative to others in the same industry or sector. To minimize the effects of random errors, researchers have suggested the use of multiple items to assess performance. Given this scenario, the researchers in this study have opted to use multiple items in order to assess the performance of the organizations to be studied. These items relate to profitability and sales growth.

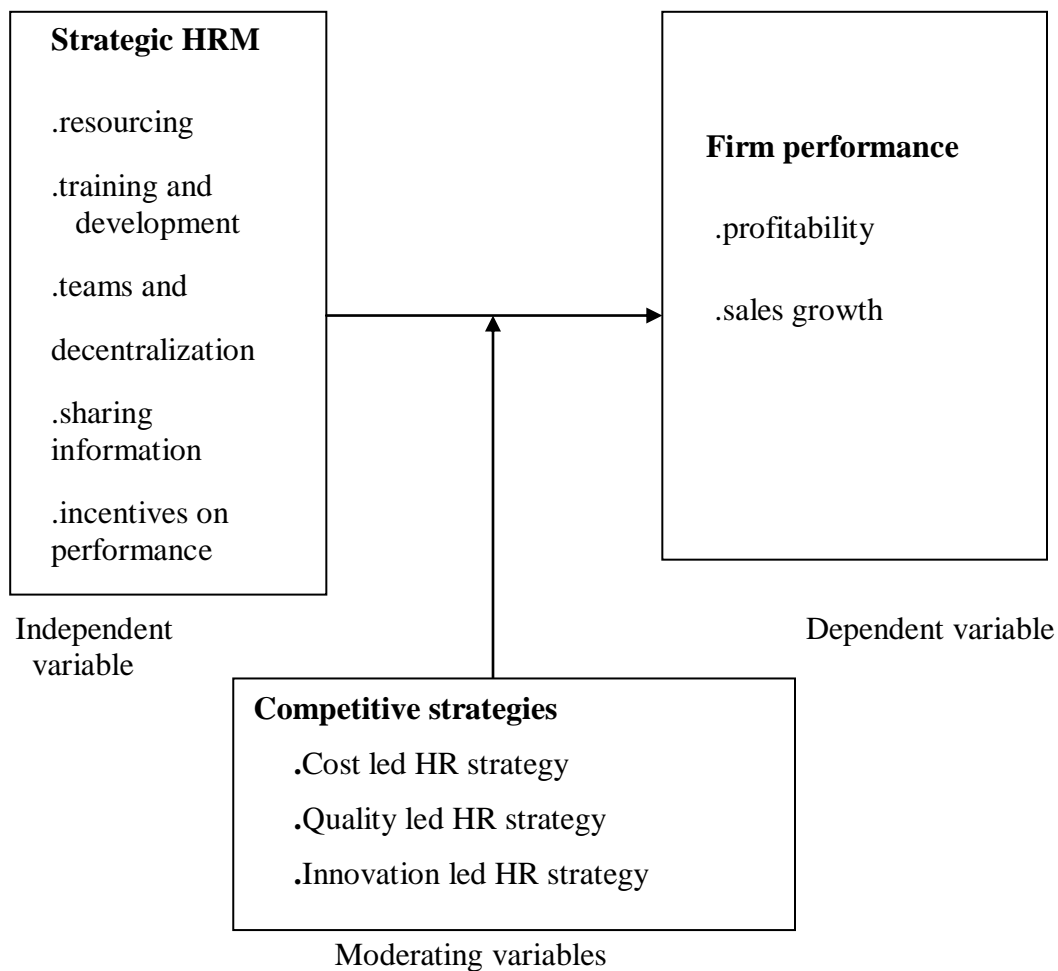


Figure 1: Conceptual Framework linking Strategic Human Resource Management, Competitive Strategies and Firm Performance

4. Summary and Concluding Remarks

This paper has reviewed the relevant literature and the considerable discussion and deconstruction of SHRM, various elements of competitive strategies and the links between these elements. The researchers have examined the way in which HR policies and practices may be used to provide coherent and comprehensive HR bundles. This has led to suggestions that there is one best way in which HRM should be delivered and moreover that this has a positive impact on organizational performance. Review examining how HR strategies can be aligned with wider organizational goals has also been examined. Best fit HRM is the idea that HR practice should and does vary between organizations depending on business strategy or product market circumstances. This approach is useful not only for countering the more simplistic versions to reflect organizational reality-at least at a broad level. The approaches view HR as having an important role in supporting organizational strategy and still play an important role in developing SHRM. Generic HR processes can benefit from best practice theories while best fit should be applied when context matters to align management and employee interests. Competitive strategies are deemed strategic in linking HR policies and practices to the goals of the business and the external context of the firm, and are therefore contributing in different ways to performance. Increasingly, many firms are pursuing competitive strategies aimed at cost reduction, quality improvement and innovation with the goal of gaining competitive advantage through HR. Conclusively, the contribution that SHRM may make to an organization's performance and effectiveness is closely linked to the changes in different business environment including macro and micro contexts, thus the bundling of these practices with the competitive strategy of the firm.

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