Role of Human Resource Management Practices on Performance of Financial Cooperatives Based in Nairobi County, Kenya

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Abstract

This paper examines the relationship between Human Resource Management practices and firms' performance. Recently, the study of the relationship between HRM practices and firms' performance has shifted from studying individual practices and their influence on organizational performance to studying the entire HRM system and its influence on organizational performance. Different models and theories in HRM literature exist that tries to explain this relationship. Measures of performance as the dependent variable vary as identified by different authors. They fall generally into two categories, that is financial and non financial measures. Divergent opinion exists as what constitutes HRM practices as linked with performance in various studies. Contribution of synergetic relationship among HRM practices to organizational performance, need to be explored and measures generated. Finally the paper develops a conceptual framework that links Human Resource Management practices and firms performance.

Key words: Human Resource Management, Performance.

1. Introduction

In recent years, the focus of research on HRM has shifted from study and relationship of individual HRM practices on business performance to entire HRM system and its influence on organizational performance (Khan, 2010). Most researches investigating the link between HRM and performance tend to select HR practices from different HRM functions then study their influence on performance (Teseema & Soeters, 2006; Wall &Wood, 2005). Rather than focusing on individual HR practice, scholars of strategic human resource management (SHRM) have turned their attention during the last decade to a "bundle" of mutually reinforcing and synergistic HR practices that facilitate employee commitment and involvement (McDuffie, 1995). The implication is that HR practices should be complimentary in nature. These bundles are referred in literature as "high involvement" (Lawler, 1992), "high commitment" (Arthur, 1992), and "high performance" (Huselid, 1995). This view is supported by Armstrong (2010) who argues that bundling can take place in a number of ways. The ways includes development of high performance, high commitment and high involvement systems.

With regard to high performance Delery and Doty (1996) identified three perspectives among existing theories. This includes the universalistic perspective that argues that some HR practices are better than others and all organizations should adopt such practices. The other identified perspective is the contingency that argues that HR policies must be consistent with other aspects of the organization, organization strategy being the primary contingency factor. The last perspective is configuration which emphasizes the importance of the pattern of HR practices and also is concerned with how these practices affect organizational performance.

1.1 Background of the study

Many countries that have achieved economic development have a vibrant and a dynamic cooperative sector which contributes substantially to the growth of those economies. For example, in Kenya cooperatives contribute 45% of the Gross Domestic Product (GDP) and 31% of the total national savings and deposits. Cooperatives control 70% of the coffee market, 76% of the dairy market and 95% of the cotton market (ICA Report, 2006).

According to Wanyama (2009) the greatest contribution of cooperatives to Kenya's social and economic development is in the financial sector where financial cooperatives such as savings and credit cooperatives hold substantial savings portfolios. This underlines the importance of financial cooperatives to the economy of Kenya.

The importance of financial cooperatives in the economy of Kenya presently and in the days to come motivated the researcher to choose financial cooperatives as a platform for this research. This importance is demonstrated by GOK (2007) vision 2030 which recognizes financial cooperatives as vehicles of achieving vision 2030. This is under financial services in the economic pillar. If financial cooperatives are to contribute significantly towards realization of this vision, then they must continuously perform.

1.2 Human Resource Management and Firm Performance

Investigations on the link between HRM and organizational performance as extensively been done in the US and the UK. Several authors point out that research needs to be conducted in others contexts (Ericksen & Dyer, 2005; Wright *et al*., 2005).

Research on HR practices and their link to firm's performance in most cases do not address the issue of horizontal integration and vertical alignment. This is centrally to HRM principle of synergetic relationship among various practices. Indeed there is a need to have measures of the contribution of synergetic relationship of these practices to performance of the organization. Additionally their link to overall business strategy and consequently effect on performance should be addressed.

The relationship between HR practices and performance can be investigated in various ways. First independent HR practices and their contribution to organizational performance can be investigated. Importantly, synergetic relationship among the HR variables and contribution to organizational performance should be explored.

Koca & Uysal (2009) researched on HRM practices and firms performance and found out that HRM practices have a strong relationship with organizational performance but weak relationship with market performance. Additionally, Khan (2010) investigated the effects of HRM practices and found a positive significant relationship between practices and organizational performance.

Uysal and Koca (2009) found out that recruitment, training and performance based pay all have a significant positive relationship with organizational performance. Additionally khan (2010) investigated and found a significant positive relationship between recruitment and selection, training and development, performance appraisals and compensation on one hand and organizational performance on the other.

2. Theoretical Review

The relationship between HRM practices and performance has been studied by focusing on several models fronted by a number of researchers. Consequently a number of theories relevant in this relationship need to be explained and applied in the context of HRM practices and firms performance.

2.1 Models on HRM Practices and Performance

Various models linking Human Resource Management to organizational performance have been formulated by several authors (Becker *et al*. 1997: Guest 1997: Appelbaum *et al*. 2000). Notably these models have distinct approaches to the study of the link between HRM and performance.

2.1.1 Appelbaum Model

Appelbaum *et al*. (2000) model has three boxes. The first box covers high performance work systems and includes ability, motivation and opportunity to participate. The next box contains effectively discretionally while the last box reflects the plant performance. The model is shown in figure 1.

2.1.2 Becker Model

Becker *et al*. (1997) model addresses the design of HRM system. The model has seven boxes starting with business and strategic initiatives and ending with market value. The model is depicted in figure 2.

2.1.3 Guest Model

Guest *et al*. (1997) identifies a model that links Human Resource Management and performance. The model has financial performance as the indicator of performance. This research will approach performance on two fronts. Such includes financial performance and human resource effectiveness. This is due to the fact that the field of Human Resource Management is against using human resources as vehicle of achieving financial performance without considering issues that make human resources committed, satisfied and happy. The model is shown in figure 3.

2.1 Theories on HRM Practices and Performance.

Several theories were important in this research. One of this is the capital human capital theory. Torrington (2008) explains that human capital signifies the combined intelligence and experience of staff as a source of competitive advantage that cannot be imitated by rivals. This theory has implications thus for attracting, engaging, rewarding and developing people in organizations. The theory has cross cutting significance in HRM practices. In the context of the current study Human capital theory will be the umbrella theory to underpin this study. It is useful in the context of financial cooperatives because HRM practices to be studied in this research must ensure these organizations attract and retain employees. Investments in Human resources in financial cooperatives need to be done by the use of training practices.

Additionally, this study was underpinned by the expectancy theory. Armstrong (2010) discusses this theory. In the expectancy theory, motivation is likely to be when there is a perceived and usable relationship between performance and outcome, with the outcome being seen as a means of satisfying needs. In other words a there must be a link between a certain reward and what has to be done to achieve it. This theory is very important in the context of this research. The theory is instrumental especially when financial cooperatives are designing performance based pay. Reason for this is that management of financial cooperatives needs to design performance based pay so as to ensure these organizations continue to improve their performance. In the Kenyan context, financial cooperatives are aiming to offer services that have been a preserve of banks. To compete favorably with banks, financial cooperatives need not only to offer competitive rewards but also to go an extra mile to link some categories of rewards to performance.

To understand performance management practices, the goal theory was adopted in this study. According to Mullins (2010) the goal theory has implications for managers. To direct behavior and maintain motivation, performance goals should be identified and set to direct behavior. To ensure high performance, goals should be set at a challenging but realistic level. Additionally, to guarantee high performance, feedback must be given as means of checking goals attainment and a basis for any revision of goals. Lastly, when goals are set by other people for instance managers, participation of those tasked with achievement of goals is of paramount importance. The implications discussed above can be used by financial cooperatives so as to design a performance management system which is appropriate and also to ensure high performance.

Attraction selection attrition theory was adopted in this research as it explains why people are attracted to organizations.

In most cases recruitment and selection practices are carried out after initial attraction of employees to the organization. It must also be stated that attraction is bidirectional. This is to say that the organization before recruiting and selecting candidates for positions also gets attracted to a pool of talent with specific attributes that might be existing outside the organization. The Attraction selection theory is relevant to this research as it explains attraction, selection and retentions of employees by organizations. According to Schneider (1987) organizations attract, select, and retain those people who share their values.

3. Conceptual model

From the reviewed literature, recruitment and selection, reward management, training and performance management practices have been adopted as independent variables of the study. Two measures of Performance as the dependent variable were focused on and include financial performance to be realized by use of net profit and employee outcome identified as retention to be realized through rate of labor turnover. HRM practices have been classified into four main areas which include employee resourcing, reward management practices, training practices and performance management practices. This classification is similar to the one adopted by Chad and Katou (2007). This is shown in figure 4.

3.1 Human Resource Management Practices

Human Resource Practices are informal approaches used in managing people (Armstrong, 2010). Wall and Wood (2005) outline HRM practices as sophisticated selection methods, appraisal, training, teamwork, communications, empowerment, performance related pay and employment security. Huselid (1995) used eleven HRM practices in his study and these include personnel selection, performance appraisal, incentive compensation, job design, grievance procedures, information sharing, attitude assessment, labor management participation, recruitment efforts, employee training and promotion criteria.

Research based on HR practices has identified several HR practices and failed to group them under the broad areas HR in which they belong. This approach makes it impossible to explain clearly the contribution of a certain broad HR area to performance. Studying HR practices by specifying broad area in HRM such as training, reward management, recruitment among others is likely to end up with findings that do not map to a very specific issue. Rather HRM practices should be several in any broad HRM area in researches dealing with HR practices. Dimba (2008) deals with this by generating several measurement scales for each HR practice identified. Thus a broad research area such as training cannot be used as HR practice. Rather several practices can be derived from this broad area. Chad and Katou (2007) deals with this challenge by grouping 27 HR practices into six broad groups namely recruitment and selection, manpower planning, job design training and development quality circles and pay systems.

3.2 Performance

Divergent views exist on the performance indicators to be used in research investigating the role of HRM practices on organizational performance. Some use financial based indicators whole others use non financial indicators. In HRM so as not to be seen as using Human Resources as means to an end, research in this area should use both financial and non financial indicators. It is however worthwhile to note that the non financial measures ultimately lead to financial gain. For examples consider labor turnover. This is one of the non financial measures used. Ultimately labor turnover when is low means that the organization will not incur cost to fill vacant places on top of other cost related to labor turnover. In a nutshell although it is important to use both financial and non financial results, we should not lose sight of the fact that this non financial measures or indicators will ultimately lead to financial performance for the organization.

One key area of concern is the definitions and limitations of performance used in evaluation. Current measures of performance are largely determined by financial performance and productivity, usually within a highly managerialist perspective (Guest, 1997). However, this approach neglects the role and contribution of employees in achieving organizational performance and fails to consider how employees' perceive HR practices (Guest, 1999).

Research that aims to investigate the link between HRM and performance can use one or several performance indicators. Dyer & Reeves (1995) proposed four categories of measures of performance.

First, employee outcomes deal with the consequences of the practices on employees such as their attitudes and behavior, particularly behavior such as employee absenteeism and turnover. Organizational outcomes focus on operational measures of performance such as productivity, quality and shrinkage, many or all of which would be precursors to profitability. Financial/ accounting outcomes refer to the actual financial performance measures and include expenses, revenues and profitability. Finally, market-based outcomes reflect how the financial markets value a firm, particularly stock price or variations of it. In realization of the several indicators used on performance, this research will dwell on financial performance and HR effectiveness.

Thus there needs to be a balance when studying the link between HRM and performance in the sense that financial performance and the role and contribution of employees should form the basis of performance indicators. That is why this study uses financial and non financial performance indicators. This upholds the morality of HRM and prevent this field from being seen as the one that supports ideas that perceives employees as a means to an end.

4. Summary and Concluding remarks

The researchers have pointed out various aspects pertaining to HRM performance relationship, a hotly debated topic in HRM literature. Notably the paper has tried to break down the Performance variable to several measures that fall into two broad categories, that is financial and non financial measures. Although most researches dwell on financial performance, there is a need for a balanced approach that considers non financial measures dwelling on HRM effectiveness. Additionally, several theories and models have been considered. They need to be included when investigating this relationship as part of the theoretical framework. Even with the shift to studying HRM systems and their relationship with firms' performance as opposed to individual HRM practices, there is a need to group these practices in broad areas HR in which they belong. This approach makes it possible to explain clearly the contribution of a certain broad HR area to performance without losing the larger picture. More research investigating this issue needs to be done in other contexts especially in Africa, and also in non manufacturing firms as well as charitable organizations.

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Appendices

Figures

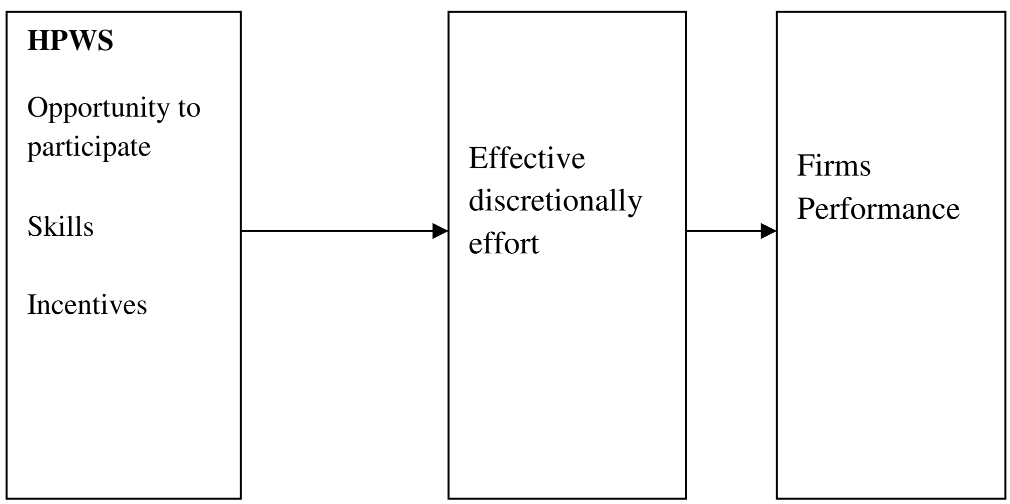

Figure 1: Alppelbaum *et al*. 2000

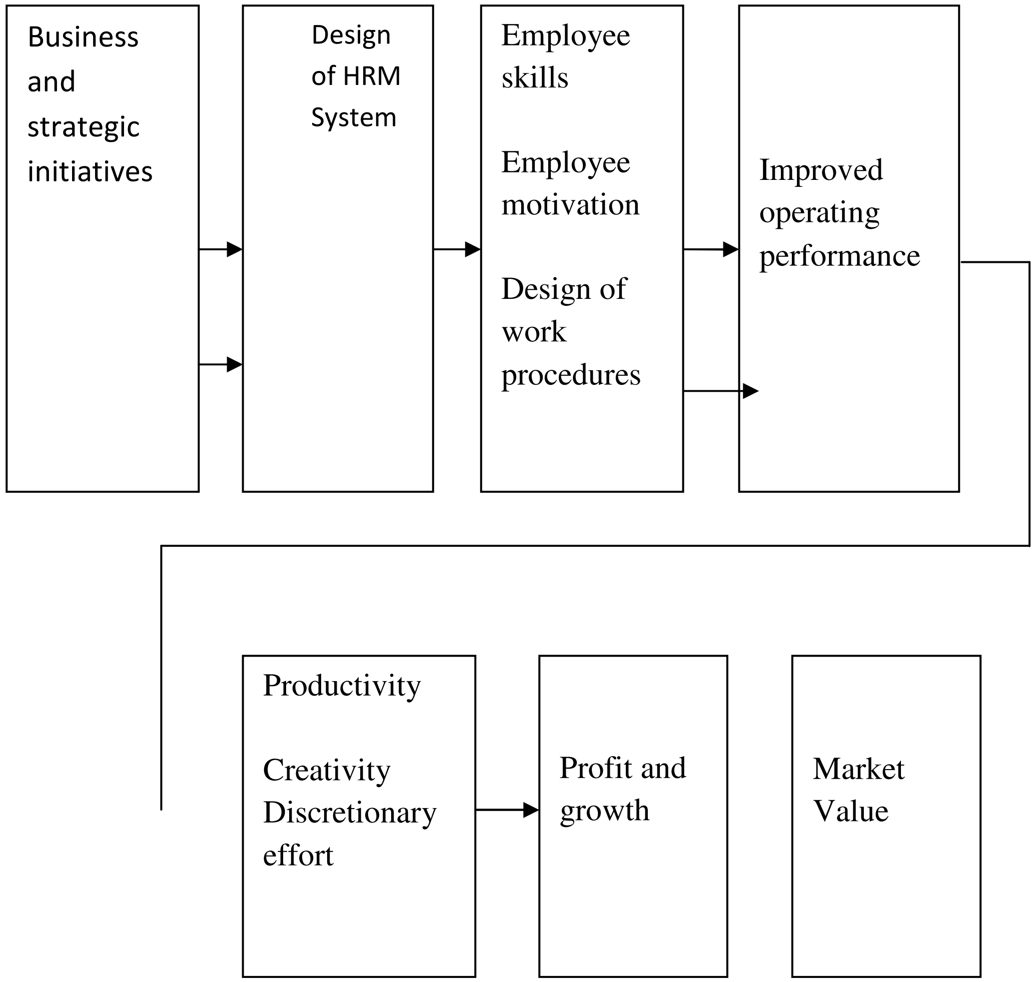

Figure 2: Becker et al. (1997) Model

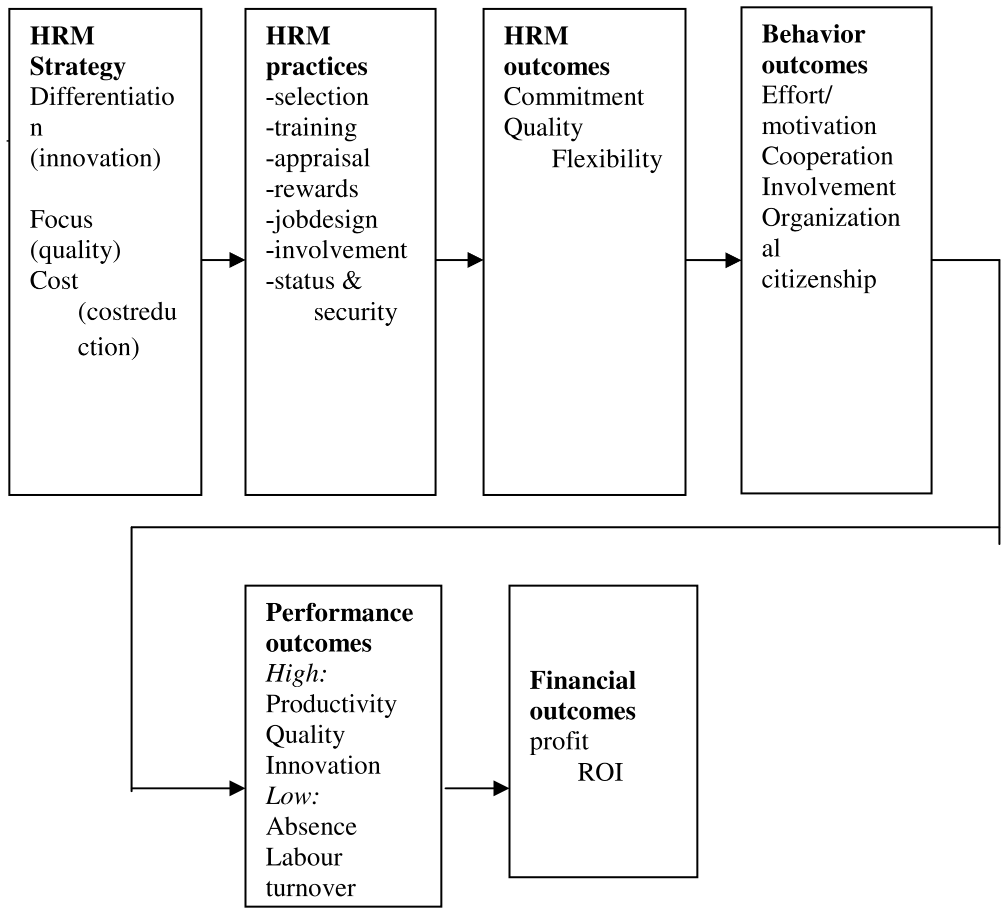

Figure 3: Guest (1997) model

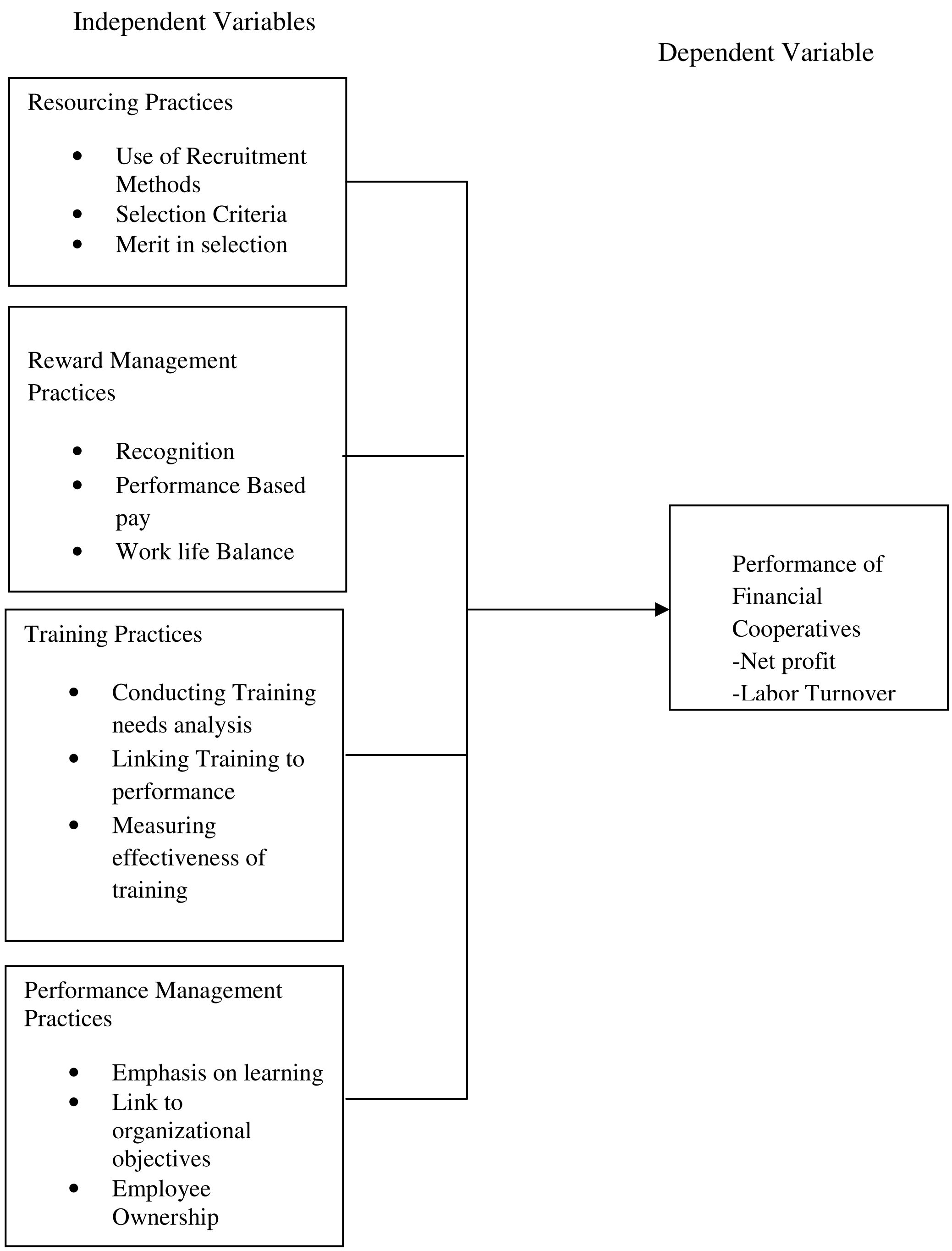

Figure 4: Conceptual Framework